

Moody's: Aa

Standard & Poor's: AA—

(See "MISCELLANEOUS—Ratings" herein.)

In the opinion of Orrick, Herrington & Sutcliffe, Los Angeles, California and Williams & Gilmore, La Jolla, California ("Co-Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions and assuming (among other things) compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the opinion of Co-Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Co-Bond Counsel express no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "LEGAL MATTERS—Tax Exemption" herein.

\$66,570,000**CITY OF SAN DIEGO/MTDB AUTHORITY****Lease Revenue Bonds
(1994 Refundings)****Dated: April 1, 1994****Due: September 1, as shown below**

The proceeds of the City of San Diego/MTDB Authority Lease Revenue Bonds (1994 Refundings) (the "Bonds") will be used to advance refund portions of the City of San Diego Refunding Certificates of Participation (Police Capital Improvements Projects) and the City of San Diego/MTDB Authority 1989 Lease Revenue Bonds (San Diego Bayside Light Rail Transit Extension) (collectively, the "Prior Obligations"). In order to effect such refunding, the City of San Diego/MTDB Authority (the "Authority") and the City of San Diego, California (the "City") have amended each of the leases relating to the Prior Obligations (collectively, the "Amended Leases") in order to divert a portion of the lease payments payable thereunder to the Trustee for the Bonds, while retaining sufficient lease payments to pay debt service on the obligations which are not being refunded. The Bonds are payable solely from and secured solely by a pledge and assignment of Revenues, consisting of Base Rental Payments to be paid by the City and received by the Authority pursuant to the Amended Leases, and certain other monies as described in the Indenture. The Base Rental Payments are subject to abatement in the event of damage, destruction, condemnation or title defects with respect to the real property encumbered by the Amended Leases as more particularly described herein. See "RISK FACTORS" herein.

Interest due with respect to the Bonds is payable semiannually on March 1 and September 1 of each year, commencing September 1, 1994. See "THE BONDS—General Provisions" herein. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds as described herein under "THE BONDS—Book-Entry System." The City shall make Base Rental Payments to First Interstate Bank of California, as trustee (the "Trustee"), for the use and possession of the Leased Property during each annual period. The Trustee shall deposit such Base Rental Payments in the Revenue Fund established under the Indenture. Such Base Rental Payments, if paid in full, will be sufficient, in both time and amount, to pay, when due, the principal of and interest on the Bonds. Pursuant to the Indenture, the Trustee will, on each Interest Payment Date, apply funds available in the Revenue Fund in the amounts required to make principal and interest payments due with respect to the Bonds.

The Bonds are subject to extraordinary and optional redemption as described herein. See "THE BONDS—Redemption Provisions" herein.

Neither the Bonds nor the obligation of the City to make Base Rental Payments under the Amended Leases constitute an obligation of the City for which the City is obligated to pledge or levy any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Bonds nor the obligation to make such payments constitute an indebtedness of the City, the County of San Diego, the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

MATURITY SCHEDULE

<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>
1994	\$ 885,000	4.25%	2.75%	2002	\$6,240,000	5.00 %	5.10%
1995	4,000,000	4.25	3.30	2003	6,545,000	5.10	5.20
1996	4,170,000	4.25	4.10	2004	6,885,000	5.25	5.30
1997	3,615,000	4.30	4.35	2005	4,650,000	5.30	5.40
1998	3,780,000	4.50	4.55	2006	2,360,000	5.40	5.50
1999	3,950,000	4.70	4.75	2007	2,490,000	5.50	5.60
2000	5,665,000	4.80	4.90	2008	2,620,000	5.60	5.70
2001	5,945,000	4.90	5.00	2009	2,770,000	5.625	5.75

(plus accrued interest, from April 1, 1994)

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Bonds were awarded to Goldman, Sachs & Co. on March 22, 1994 pursuant to the terms of a competitive bid at a true interest cost of 5.2676%. The Bonds will be offered when, as and if executed, subject to the approval as to legality by Orrick, Herrington & Sutcliffe, Los Angeles, California and Williams & Gilmore, La Jolla, California, and to certain other conditions. Certain legal matters for the Authority and the City will be passed upon by the City Attorney. It is anticipated that the Bonds in book-entry form will be available for delivery through DTC in New York, New York, on or about April 12, 1994.

March 22, 1994

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations other than as contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries or references to the Indenture, the Amended Leases and other documents, agreements and statutes referred to herein, and the description of the Bonds included in this Official Statement, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by reference to each such document or statute. All capitalized terms used in this Official Statement (unless otherwise defined herein) which are defined in the Indenture or the Amended Leases shall have the meanings set forth therein.

The information set forth herein has been obtained from official sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the City. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

CITY OF SAN DIEGO/MTDB JOINT POWERS AUTHORITY

MEMBERS OF THE AUTHORITY BOARD

Councilmember Ron Roberts, Vice Chairman
Councilmember Valerie Stallings, Member
Leon Williams, Member

AUTHORITY OFFICERS

Ed Ryan <i>Auditor and Comptroller</i>	John W. Witt <i>City Attorney</i>
Patricia T. Frazier <i>Director of Financial Management</i>	Conny M. Jamison <i>City Treasurer</i>
Tom Larwin <i>General Manager, MTDB</i>	Deborah Gunn <i>Secretary</i>

CITY OF SAN DIEGO

	Susan Golding <i>Mayor</i>	
George Stevens <i>Deputy Mayor</i>		Christine Kehoe <i>Member</i>
Harry Mathis <i>Member</i>		Judy McCarty <i>Member</i>
Ron Roberts <i>Member</i>		Valerie Stallings <i>Member</i>
Barbara Warden <i>Member</i>		Juan Vargas <i>Member</i>
Jack McGrory <i>City Manager</i>	John W. Witt <i>City Attorney</i>	

PROFESSIONAL SERVICES

CO-FINANCIAL ADVISORS

Public Resources Advisory Group <i>New York, New York</i>	
E. J. De La Rosa & Co., Inc. <i>Los Angeles, California</i>	Municipal Capital Management, Inc. <i>Santa Monica, California</i>

CO-BOND COUNSEL

Orrick, Herrington & Sutcliffe <i>Los Angeles, California</i>	Williams & Gilmore <i>La Jolla, California</i>
--	---

TRUSTEE/ESCROW AGENT

First Interstate Bank of California
Los Angeles, California

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
THE BONDS	2
General Provisions	2
Debt Service Payment Schedule	2
Redemption Provisions	6
Book-Entry System	7
General	7
Discontinuation of Book-Entry System; Payment to Beneficial Owners	9
SECURITY AND SOURCES OF PAYMENT FOR THE BONDS	9
General	9
Base Rental Payments	10
1986 Lease	10
1989 Lease	11
Reserve Account	11
Insurance	12
1986 Lease	12
1989 Lease	13
LEASED PROPERTY	13
1986 Lease	13
1989 Lease	14
RISK FACTORS	15
Bonds Not a General Obligation	15
City's Base Rental Payments	16
Abatement	16
Limited Recourse on Default	17
Possible Insufficiency of Insurance Proceeds	17
Common Leased Premises	18
Limitations on Remedies Available to Owners of the Bonds	18
THE PLAN OF REFUNDING	18
Purpose of the Issue	18
Escrow Funds	19
Estimated Sources and Uses of Funds	19
THE AUTHORITY	20
General	20
San Diego Metropolitan Transit Development Board	20
LEGAL MATTERS	21
Tax Exemption	21
Legal Opinions	22
No Litigation	22
Legality for Investment in California	22
MISCELLANEOUS	23
Ratings	23
Underwriting	23

Co-Financial Advisors	23
Additional Information	23
APPENDIX A: GENERAL ECONOMIC AND FINANCIAL INFORMATION ON THE CITY OF SAN DIEGO	
APPENDIX B: SUMMARY OF PRINCIPAL LEGAL DOCUMENTS	
APPENDIX C: EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (YEAR ENDED JUNE 30, 1993)	
APPENDIX D: FORM OF FINAL OPINION OF CO-BOND COUNSEL	

OFFICIAL STATEMENT

\$66,570,000
CITY OF SAN DIEGO/MTDB AUTHORITY
Lease Revenue Bonds
(1994 Refundings)

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish certain information in connection with the issuance and sale of the City of San Diego/MTDB Authority Lease Revenue Bonds (1994 Refundings) in the aggregate principal amount of \$66,570,000 (the "Bonds"). The Bonds, in book-entry form, will be issued pursuant to an Indenture dated as of April 1, 1994 (the "Indenture"), by and between the City of San Diego/MTDB Authority (the "Authority"), a California joint exercise of powers agency between the City of San Diego (the "City") and the San Diego Metropolitan Transit Development Board (the "MTDB"), and First Interstate Bank of California, as trustee (the "Trustee").

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

The Indenture provides that the Trustee will apply Base Rental Payments and other monies received by it for the benefit of the registered owners of the Bonds (the "Owners") to the payment of the Bonds, and will perform certain other functions. The proceeds of the sale of the Bonds will be deposited with the Trustee and will be disbursed to advance refund portions of the City of San Diego Refunding Certificates of Participation (Police Capital Improvements Projects) (the "1986 Obligations") and the City of San Diego/MTDB Authority 1989 Lease Revenue Bonds (San Diego Bayside Light Rail Transit Extension) (the "1989 Obligations" and, together with the 1986 Obligations, the "Prior Obligations"), and to pay the costs of issuance of the Bonds. See **"APPENDIX B — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."**

The 1986 Obligations are payable primarily from lease payments made by the City under a Lease Agreement dated as of May 1, 1986 (the "1986 Lease") between the City and the Authority, as successor to Rauscher Pierce Refsnes Leasing, Inc. The 1989 Obligations are payable primarily from lease payments made by the City under a Lease Agreement dated as of June 1, 1989 (the "1989 Lease") between the City and the Authority. Pursuant to certain amendments to the 1986 Lease and the 1989 Lease, a portion of the lease payments due under such leases shall be diverted to the Trustee, with the undiverted lease payments thereunder being sufficient to make timely payments with respect to the Prior Obligations which will remain outstanding. Such diverted lease payments are defined collectively as "Base Rental Payments" or "Base Rental," and are designed to be sufficient, in both time and amount, to pay, when due, the principal of and interest on the Bonds. Thus, a portion of Base Rental is payable on a parity with the lease payments securing the 1986 Obligations, and the remaining portion of Base Rental is payable on a parity with the lease payments securing the 1989 Obligations.

Neither the Bonds nor the obligation of the City to make Base Rental Payments under the Amended Leases constitute an obligation of the City for which the City is obligated to pledge or levy

any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Bonds nor the obligation to make such payments constitute an indebtedness of the City, the County of San Diego, the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. See **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."**

Brief descriptions of the Bonds, Security and Sources of Payment for the Bonds, Risk Factors, the City and the Authority follow. Such descriptions do not purport to be comprehensive or definitive. All references made to various documents herein are qualified in their entirety by reference to the actual forms thereof, copies of which may be obtained from the Trustee. All capitalized terms used in this Official Statement (unless otherwise defined herein) which are defined in the Indenture shall have the meanings set forth therein, some of which are summarized in **"APPENDIX B — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."**

THE BONDS

General Provisions

The Bonds will be executed and delivered in the aggregate principal amount of \$66,570,000, will be dated April 1, 1994, will be payable as to interest from April 1, 1994 at the rates per annum set forth on the cover page hereof, semiannually on each March 1 and September 1 (each an "Interest Payment Date"), commencing September 1, 1994, and will mature on September 1 in each of the designated years and in the principal amounts shown on the cover page hereof.

Debt Service Payment Schedule

Base Rental Payments are required to be made by the City to the Trustee under the Amended Leases, for the use and possession of the Leased Property during each annual period. The Trustee shall deposit such Base Rental Payments in the Revenue Fund established under the Indenture. Such Base Rental Payments, if paid in full, will be sufficient, in both time and amount, to pay, when due, the principal of and interest on the Bonds. Pursuant to the Indenture, the Trustee will, on each Interest Payment Date, apply funds available in the Revenue Fund, in the amounts required to make principal and interest payments due with respect to the Bonds.

The following tables present the debt service requirements with respect to the Bonds, the lease payment schedule with respect to the 1986 Lease, as amended, and the lease payment schedule with respect to the 1989 Lease, as amended. See **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Base Rental Payments."**

CITY OF SAN DIEGO/MTDB AUTHORITY
Lease Revenue Bonds
(1994 Refundings)
DEBT SERVICE PAYMENT SCHEDULE

Bond Payment Dates	Principal	Interest	Total	Bond Year Total
09/01/94	\$ 885,000.00	\$ 1,366,619.79	\$ 2,251,619.79	\$ 2,251,619.79
03/01/95		1,621,137.50	1,621,137.50	
09/01/95	4,000,000.00	1,621,137.50	5,621,137.50	7,242,275.00
03/01/96		1,536,137.50	1,536,137.50	
09/01/96	4,170,000.00	1,536,137.50	5,706,137.50	7,242,275.00
03/01/97		1,447,525.00	1,447,525.00	
09/01/97	3,615,000.00	1,447,525.00	5,062,525.00	6,510,050.00
03/01/98		1,369,802.50	1,369,802.50	
09/01/98	3,780,000.00	1,369,802.50	5,149,802.50	6,519,605.00
03/01/99		1,284,752.50	1,284,752.50	
09/01/99	3,950,000.00	1,284,752.50	5,234,752.50	6,519,505.00
03/01/2000		1,191,927.50	1,191,927.50	
09/01/2000	5,665,000.00	1,191,927.50	6,856,927.50	8,048,855.00
03/01/2001		1,055,967.50	1,055,967.50	
09/01/2001	5,945,000.00	1,055,967.50	7,000,967.50	8,056,935.00
03/01/2002		910,315.00	910,315.00	
09/01/2002	6,240,000.00	910,315.00	7,150,315.00	8,060,630.00
03/01/2003		754,315.00	754,315.00	
09/01/2003	6,545,000.00	754,315.00	7,299,315.00	8,053,630.00
03/01/2004		587,417.50	587,417.50	
09/01/2004	6,885,000.00	587,417.50	7,472,417.50	8,059,835.00
03/01/2005		406,686.25	406,686.25	
09/01/2005	4,650,000.00	406,686.25	5,056,686.25	5,463,372.50
03/01/2006 <i>12/1/06</i>		283,461.25	283,461.25	
09/01/2006 <i>6/1/06</i>	2,360,000.00	283,461.25	2,643,461.25	2,926,922.50
03/01/2007 <i>12/1/06</i>		219,741.25	219,741.25	
09/01/2007 <i>6/1/07</i>	2,490,000.00	219,741.25	2,709,741.25	2,929,482.50
03/01/2008 <i>12/1/07</i>		151,266.25	151,266.25	
09/01/2008 <i>6/1/08</i>	2,620,000.00	151,266.25	2,771,266.25	2,922,532.50
03/01/2009 <i>12/1/08</i>		77,906.25	77,906.25	
09/01/2009 <i>6/1/09</i>	2,770,000.00	77,906.25	2,847,906.25	2,925,812.50
	\$66,570,000.00	\$27,163,337.29	\$93,733,337.29	\$93,733,337.29

**1986 LEASE
LEASE PAYMENT SCHEDULE**

1986 Lease Payment Dates	Payments Due on Outstanding (Unrefunded) 1986 Obligations	Payments Due on Bonds Attributable to 1986 Lease	Combined 1986 Lease Payments	Combined Fiscal Year 1986 Lease Payments
09/01/94	\$3,169,775.00	\$ 1,583,070.83	\$ 4,752,845.83	
03/01/95		1,014,278.75	1,014,278.75	\$ 5,767,124.58
09/01/95		4,839,278.75	4,839,278.75	
03/01/96		932,997.50	932,997.50	5,772,276.25
09/01/96		4,917,997.50	4,917,997.50	
03/01/97		848,316.25	848,316.25	5,766,313.75
09/01/97		4,273,316.25	4,273,316.25	
03/01/98		774,678.75	774,678.75	5,047,995.00
09/01/98		4,354,678.75	4,354,678.75	
03/01/99		694,128.75	694,128.75	5,048,807.50
09/01/99		4,434,128.75	4,434,128.75	
03/01/2000		606,238.75	606,238.75	5,040,367.50
09/01/2000		4,516,238.75	4,516,238.75	
03/01/2001		512,398.75	512,398.75	5,028,637.50
09/01/2001		4,617,398.75	4,617,398.75	
03/01/2002		411,826.25	411,826.25	5,029,225.00
09/01/2002		4,721,826.25	4,721,826.25	
03/01/2003		304,076.25	304,076.25	5,025,902.50
09/01/2003		4,824,076.25	4,824,076.25	
03/01/2004		188,816.25	188,816.25	5,012,892.50
09/01/2004		4,943,816.25	4,943,816.25	
03/01/2005		63,997.50	63,997.50	5,007,813.75
09/01/2005		2,478,997.50	2,478,997.50	
03/01/2006				2,478,997.50
	\$3,169,775.00	\$56,856,578.33	\$60,026,353.33	\$60,026,353.33

**1989 LEASE
LEASE PAYMENT SCHEDULE**

1989 Lease Payment Dates	Payments Due on Outstanding (Unrefunded) 1989 Obligations	Payments Due on Bonds Attributable to 1989 Lease *	Combined 1989 Lease Payments	Combined Fiscal Year 1989 Lease Payments
06/01/94	\$1,288,620.00	\$ 668,548.96	\$ 1,957,168.96	\$ 1,957,168.96
12/01/94	209,918.75	606,858.75	816,777.50	
06/01/95	1,324,918.75	781,858.75	2,106,777.50	2,923,555.00
12/01/95	173,681.25	603,140.00	776,821.25	
06/01/96	1,358,681.25	788,140.00	2,146,821.25	2,923,642.50
12/01/96	134,872.50	599,208.75	734,081.25	
06/01/97	1,399,872.50	789,208.75	2,189,081.25	2,923,162.50
12/01/97	93,127.50	595,123.75	688,251.25	
06/01/98	1,443,127.50	795,123.75	2,238,251.25	2,926,502.50
12/01/98	48,240.00	590,623.75	638,863.75	
06/01/99	1,488,240.00	800,623.75	2,288,863.75	2,927,727.50
12/01/99		585,688.75	585,688.75	
06/01/2000		2,340,688.75	2,340,688.75	2,926,377.50
12/01/2000		543,568.75	543,568.75	
06/01/2001		2,383,568.75	2,383,568.75	2,927,137.50
12/01/2001		498,488.75	498,488.75	
06/01/2002		2,428,488.75	2,428,488.75	2,926,977.50
12/01/2002		450,238.75	450,238.75	
06/01/2003		2,475,238.75	2,475,238.75	2,925,477.50
12/01/2003		398,601.25	398,601.25	
06/01/2004		2,528,601.25	2,528,601.25	2,927,202.50
12/01/2004		342,688.75	342,688.75	
06/01/2005		2,577,688.75	2,577,688.75	2,920,377.50
12/01/2005		283,461.25	283,461.25	
06/01/2006		2,643,461.25	2,643,461.25	2,926,922.50
12/01/2006		219,741.25	219,741.25	
06/01/2007		2,709,741.25	2,709,741.25	2,929,482.50
12/01/2007		151,266.25	151,266.25	
06/01/2008		2,771,266.25	2,771,266.25	2,922,532.50
12/01/2008		77,906.25	77,906.25	
06/01/2009		2,847,906.25	2,847,906.25	2,925,812.50
	<u>\$8,963,300.00</u>	<u>\$36,876,758.96</u>	<u>\$45,840,058.96</u>	<u>\$45,840,058.96</u>

* Lease payments are made three months in advance of the corresponding debt service payment on the Bonds.

Redemption Provisions

Optional Redemption. The Bonds maturing on or before September 1, 2004 are not subject to optional redemption prior to maturity. The Bonds maturing on or after September 1, 2005 are subject to redemption prior to their respective stated maturity dates, at the option of the City, from any source of available funds, in whole or in part, on any business day prior to their respective maturities on or after September 1, 2004, at the following prices (expressed as a percentage of the principal amount of Bonds to be redeemed) plus interest accrued thereon to the date fixed for redemption.

<u>Redemption Period</u>	<u>Redemption Price</u>
September 1, 2004 through August 31, 2005	102%
September 1, 2005 through August 31, 2006	101
September 1, 2006 and thereafter	100

Extraordinary Redemption. The Bonds are subject to redemption, in whole or in part, on any business day, from prepaid Base Rental Payments made by the City from a portion of Net Proceeds received by the City pursuant to the title insurance policies required to be maintained under each of the Amended Leases or due to a casualty loss or governmental taking by eminent domain proceedings of any portion of the Leased Property, at a redemption price equal to the principal amount represented thereby to the date fixed for redemption, without premium. Base Rental Payments would be prepaid in the event the City elects not to apply such amounts to repair or replace such portion of the Leased Property in accordance with the provisions of the applicable Amended Lease and the Indenture. Any Net Proceeds of insurance maintained pursuant to the terms of either of the Amended Leases shall be applied pro rata between the Bonds and the outstanding Prior Obligations relating to such Amended Lease. For a discussion of the insurance required to be maintained by the City, see "APPENDIX B – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Method of Selection for Redemption. If less than all Outstanding Bonds are called for optional redemption, the Trustee shall select Bonds for redemption from the Outstanding Bonds not previously called for redemption in such order of maturity as the City, on behalf of the Authority, may direct and by lot within a maturity.

If less than all Outstanding Bonds are to be redeemed at any time from Net Proceeds, the Trustee shall use the net insurance proceeds or condemnation awards attributable to the portion of the Leased Property destroyed, damaged, stolen or taken, to redeem, on a pro rata basis, as directed in writing by the City, on behalf of the Authority, Bonds in each of the years remaining in the original useful life of the property destroyed, damaged, stolen or taken. If less than all the Outstanding Bonds maturing by their terms on any one date are to be so redeemed at any one time, the Trustee shall select the Bonds of such maturity date to be redeemed in any manner that it deems appropriate and fair.

Notice of Redemption. Notice of redemption shall be mailed by the Trustee, not less than 30 nor more than 60 days prior to the redemption date to (i) the respective Owners of the Bonds designated for redemption at their addresses appearing on the registration books of the Trustee by first class mail, (ii) the Securities Depositories and (iii) the Information Services. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered mail or by overnight delivery. Each notice of redemption shall state the date of such notice, the redemption price, the name and appropriate address of the Trustee, the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds thereof and

in the case of a Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address of the Trustee specified in the redemption notice. As long as a book-entry method is used for the Bonds, such notice shall be sent by the Trustee to the securities depository for the Bonds, initially DTC or its nominee. Beneficial owners of interests in the Bonds are to receive notification of such redemption as described under the heading **"THE BONDS — Book-Entry Only System."**

The Indenture provides that if notice of redemption has been duly given as aforesaid and money for the payment of the redemption price of the Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice Bonds shall become due and payable, and from and after the date so designated interest on the Bonds so called for redemption shall cease to accrue, and the Owners of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

Failure by the Trustee to give notice to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notices, shall not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail or otherwise provide notice of redemption to any one or more of the respective Owners of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Owners to whom such notice was mailed.

Book-Entry System

General

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Bonds. The Bonds will be issued as fully-registered certificates, without coupons, registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond will be issued for the Bonds in the aggregate principal amount of each maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant

through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within an issue are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and interest with respect to the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on a payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Trustee, or the City may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official

Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

Discontinuation of Book-Entry System; Payment to Beneficial Owners

In the event that the book entry system described above is no longer used with respect to the Bonds, the following provisions will govern the payment, registration, transfer, exchange and replacement of the Bonds.

The principal with respect to the Bonds and any premium upon the redemption thereof prior to the maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the principal corporate trust office of the Trustee. Interest represented by the Bonds will be paid by the Trustee by check mailed to the person whose name appears on the registration books of the Trustee as the registered owner, and to that person's address appearing on the registration books as of the close of business on the fifteenth day of the month immediately preceding the Interest Payment Date. At the option of any Owner of at least \$1,000,000 in aggregate principal amount, interest will be transmitted by wire transfer to an account designated by such Owner.

Any Bond may be exchanged for Bonds of any authorized denomination upon presentation and surrender at the principal corporate trust office of the Trustee, together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Trustee. A Bond may be transferred only on the registration books upon presentation and surrender of the Bond at the principal corporate trust office of the Trustee together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Trustee. Upon exchange or transfer, the Trustee shall complete, authenticate and deliver a new Bond of any authorized denomination or denominations requested by the owner equal in the aggregate to the unmatured principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

No transfer or exchange of any Bond shall be required to be made (i) after the Record Date with respect to any interest payment due on the next succeeding interest payment date, or (ii) after the Record Date with respect to any redemption of such Bonds. "Record Date" means the fifteenth day of the month immediately preceding each Interest Payment Date, whether or not such day is a Business Day. The City shall not be required to register the transfer of or exchange of any Bond selected for redemption in whole or in part, except the unprepaid portion of the Bond being prepaid in part. For every transfer and exchange of the Bonds, the Trustee may charge the Beneficial Owner a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are payable from and secured by the Revenues and certain amounts on deposit in the funds and accounts established under the Indenture. Revenues consist primarily of all Base Rental Payments made by the City pursuant to the Amended Leases. Base Rental Payments under each Amended Lease are payable on a parity basis with the lease payments securing the respective outstanding Prior Obligations. See **"THE BONDS — Base Rental Payments."** Base Rental Payments shall be paid by the City from any and all legally available funds.

The City's obligation to make such Base Rental Payments is subject to abatement if, by reason of material damage to, destruction or condemnation of, or title defect with respect to, the leased property which is encumbered by the Amended Leases (the "Leased Property"), there is substantial interference with the City's right to use and possess the Leased Property.

NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE COUNTY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Base Rental Payments

The 1986 Obligations are payable primarily from lease payments made by the City under the 1986 Lease. The 1989 Obligations are payable primarily from lease payments made by the City under the 1989 Lease. Pursuant to certain amendments to the 1986 Lease and the 1989 Lease, a portion of the lease payments due under such leases ("Base Rental" or "Base Rental Payments") shall be diverted to the Trustee, with the undiverted lease payments thereunder being sufficient to make timely payments with respect to the Prior Obligations which will remain outstanding. Thus, a portion of Base Rental is payable on a parity with the lease payments securing the 1986 Obligations, and the remaining portion of Base Rental is payable on a parity with the lease payments securing the 1989 Obligations. The Indenture requires that Base Rental Payments be deposited in the Revenue Fund maintained by the Trustee. Pursuant to the Indenture, on March 1 and September 1 of each year, commencing September 1, 1994, the Trustee will apply amounts in the Revenue Fund to make principal and interest payments with respect to the Bonds as the same shall become due and payable and in amounts sufficient to meet the payment schedule shown above under "**THE BONDS — Debt Service Payment Schedule.**"

The payment of principal and interest with respect to the 1986 Obligations is secured by a municipal bond insurance policy issued by AMBAC Indemnity Corporation. The City's payment of Base Rental under the 1986 Lease is not secured by such municipal bond insurance policy.

1986 Lease

Under the 1986 Lease, the City is required to make lease payments three business days prior to each March 1 and September 1 during the term thereof. The 1986 Lease also provides that lease payments allocated to any portion of the real property encumbered by such lease (the "1986 Leased Property") shall be abated for any period during which there is substantial interference with the use and possession of such property. If damage or destruction results in less than total occupancy of the 1986 Leased Property, lease payments will be abated in proportion to the portion of the 1986 Leased Property so damaged or destroyed. If condemnation results in less than a total taking of the 1986 Leased Property, Lease Payments will be abated in the proportion that the condemned portion of the 1986 Leased Property bears to the total 1986 Leased Property for the period during the term of the Lease Agreement in which such condition exists. The City, at its own expense, has agreed to maintain the 1986 Leased Property in good repair, promptly and efficiently so that the 1986 Leased Property will at all times remain free from neglect, damage or destruction. The Authority has no responsibility for such repair. The City has the power to make modifications and additions to the 1986 Leased Property which do not damage or substantially alter the nature of the 1986 Leased Property or reduce the value of the 1986 Leased Property to a value substantially less than that which existed prior to such modification or improvement. Any such modifications or improvements to the 1986 Leased Property will automatically become subject to the 1986 Lease. The City must pay or cause to be paid all taxes, governmental charges and assessments with respect to the 1986 Leased Property, including property taxes but excluding income, profit or estate taxes payable by the Authority or Trustee unless such property taxes are being contested by the City as provided in the 1986 Lease. See "**APPENDIX B — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.**"

1989 Lease

Under the 1989 Lease, the City is required to make lease payments semiannually one business day prior to each June 1 and December 1 during the term thereof. The 1989 Lease also provides that the obligation of the City to make lease payments may be abated during any period in which, by reason of damages, destruction, condemnation or title defect, there is substantial interference with the use or right of possession by the City of the real property encumbered by such lease (the "1989 Leased Property"). The amount of such abatement shall be such that the resulting lease payments represent fair consideration for the use and possession of portions of the 1989 Leased Property completed and not destroyed, damaged, taken or subject to title defect. The City has also covenanted under the 1989 Lease that, as long as the 1989 Leased Property is available for the City's use and occupancy, it will take such action as may be necessary to include the applicable lease payments due in each year in its annual budget and to make the necessary appropriations therefor. Said covenants on the part of the City are deemed by the City to be and shall be construed to be duties imposed by law. See "APPENDIX B — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Reserve Account

A Reserve Account (the "Reserve Account") is established within the Revenue Fund under the Indenture. The Reserve Account will be funded initially in the amount of \$1,756,817, and certain deposits will be made to the Reserve Account as set forth in the table below, such that no later than June 1, 1999 the amounts in the Reserve Account will be equal to Maximum Annual Debt Service on the Bonds.

CITY OF SAN DIEGO/MTDB AUTHORITY
Lease Revenue Bonds
(1994 Refundings)
RESERVE ACCOUNT DEPOSIT SCHEDULE

<u>Date of Deposit</u>	<u>Approximate Amount of Deposit</u>	<u>Source of Deposit</u>	<u>Approximate Cumulative Balance</u>
04/12/94	\$1,756,817	1986 Trust Agreement Reserve Fund and 1989 Trust Agreement Reserve Fund	\$1,756,817
09/01/94	\$6,110,000	1986 Trust Agreement Reserve Fund and assigned Lease Payment under 1986 Lease	\$7,866,817
06/01/99	\$1,238,727	1989 Trust Agreement Reserve Fund	\$8,060,630 ¹

¹ On June 1, 1999, the surplus of \$1,044,914 in the Reserve Account shall be immediately transferred to the Principal Account in the Revenue Fund, reducing the Reserve Account balance from \$9,105,544 to \$8,060,630, which is equal to Maximum Annual Debt Service on the Bonds.

All amounts in the Reserve Account shall be used and withdrawn for the purpose of replenishing the Interest Account or the Principal Account in such order, in the event of any deficiency at any time in either of such accounts, or for the purposes of paying the principal of, redemption

premiums, if any, and interest on the Bonds in the event that no other money of the Authority is lawfully available therefor. All interest income received by the Trustee from the investment of moneys in the Reserve Account shall be transferred to the Principal Account of the Revenue Fund; provided, however, that such interest income shall be retained in the Reserve Account to the extent that amounts therein have been transferred to make up a deficiency in the Interest Account or the Principal Account. Amounts in the Reserve Account in excess of the then current Reserve Requirement shall be transferred to the Principal Account of the Revenue Fund. See **"APPENDIX B — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."**

Insurance

1986 Lease

The 1986 Lease requires the City to maintain or cause to be maintained certain levels of the following types of insurance against risk of physical damage to the 1986 Leased Property and other risks for the protection of the owners of the 1986 Obligations and the Bonds, the Authority and the Trustee: (i) public liability and property damage; (ii) fire and extended coverage; (iii) earthquake insurance (but only if commercially available); (iv) rental interruption insurance; and (v) title insurance.

Coverage from rental interruption insurance shall be in an amount sufficient to make lease payments under the 1986 Lease for a period of at least twelve months during which the use of the 1986 Leased Property is interrupted as a result of any of the hazards covered by the fire and extended coverage insurance. Such insurance shall be maintained throughout the term of the 1986 Lease. The City may self-insure for rental interruption insurance but only by segregating reserves in a specified account equal to the insurance amount required. There can be no assurance that the coverage afforded by such insurance will be adequate to prevent a reduction in Base Rental Payments. See **"RISK FACTORS — Abatement"** herein.

Earthquake insurance shall be maintained only if commercially available. Currently, the City maintains earthquake insurance on the Leased Property structures through a private insurer. In the event such earthquake insurance shall at any time during the term of the 1986 Lease not be commercially available, the City shall not be obligated to maintain earthquake insurance during such period, provided, however, that in the event of an uninsured loss to a Project caused by earthquake the City shall apply for and use its best efforts to obtain financial assistance from the United State of America to be used for the repair, reconstruction or replacement of such Project and in the event the City does not maintain earthquake insurance the City shall maintain rental interruption insurance in an additional amount equal to the maximum Lease Payments payable in a twelve month period.

The First Amendment to the 1986 Lease contains amendments to clarify certain insurance covenants contained in the 1986 Lease. First, fire and extended coverage insurance may be in the form of a policy which covers the 1986 Leased Property and one or more additional parcels, so long as the coverage is at least equal to the cumulative replacement values of all such properties or the unpaid principal amount of all bonds, certificates of participation or other obligations secured by such properties. Second, rental interruption insurance may be in the form of a policy which covers the 1986 Leased Property and one or more additional parcels, so long as the coverage is at least equal to the cumulative amount of rental interruption insurance required by the 1986 Lease and any similar agreements relating to such additional parcels.

See **"APPENDIX B — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS"** for more details on the insurance requirements under the 1986 Lease.

1989 Lease

The City has covenanted in the 1989 Lease to maintain or cause to be maintained certain levels of liability, property damage and casualty insurance in connection with the 1989 Leased Property. In addition, the City has covenanted to maintain rental interruption or use and occupancy insurance, to ~~cover loss of use of the 1989 Leased Property, in an amount equal to the largest aggregate lease payment to be paid in any twenty-four month period.~~ There can be no assurance that the coverage afforded by such insurance will be adequate to prevent a reduction in Base Rental Payments. Extended coverage, including flood but not earthquake, is also required to be maintained. Currently, the City maintains earthquake insurance on the 1989 Leased Property structures through a private insurer.

The City agrees to maintain rental interruption or use and occupancy insurance, covering loss of the use of any part of its 1989 Leased Property as the result of fire, lightning, vandalism or other hazards other than earthquake specified in the 1989 Lease to be paid in any twenty-four month period.

The First Amendment to the 1989 Lease contains amendments to clarify certain insurance covenants contained in the 1989 Lease. First, fire and extended coverage insurance may be in the form of a policy which covers the 1989 Leased Property and one or more additional parcels, so long as the coverage is at least equal to the cumulative replacement values of all such properties or the unpaid principal amount of all bonds, certificates of participation or other obligations secured by such properties. Second, rental interruption insurance may be in the form of a policy which covers the 1989 Leased Property and one or more additional parcels, so long as the coverage is at least equal to the cumulative amount of rental interruption insurance required by the 1989 Lease and any similar agreements relating to such additional parcels.

See "**APPENDIX B — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**" for more details on the insurance requirements under the 1989 Lease.

LEASED PROPERTY

1986 Lease

The real property encumbered by the 1986 Lease consists of four different components (the "1986 Leased Property") as described below. The 1986 Leased Property was developed by Starboard Development Company, a California general partnership whose general partners are John P. Starkey Company, a California corporation, and Bradford Saunders Incorporated, a California corporation. The contractor for the 1986 Leased Property was M.H. Golden Company (the "Contractor"). On July 1, 1992, the Contractor became a subsidiary of Centex Corporation, one of the nation's largest builders.

Police Administration and Technical Center. The Police Administration and Technical Center, built in 1986, is situated within the City and occupies a complete city block, bounded by Broadway, 14th Street, "E" Street and 15th Street. The building, approximately 120,000 square feet in size, is a seven story, above grade structure with three levels of parking (two and one half are a below ground garage). The parking garage provides parking for approximately 750 vehicles and contains approximately 24,000 square feet of secured storage area. The building structure consists of a steel frame with concrete floors over metal decking. Vertical transportation consists of four elevators and two stair towers. Plaza areas at the Broadway and "E" Street entrances are paved concrete with trees and landscaping.

Heavy Vehicle Maintenance Facility. The Police Heavy Vehicle Maintenance Facility, completed and occupied in November 1985, is approximately 60,000 square feet in size, located on a full city

block, bounded by 11th and 12th and "J" and "K" Streets. The single story industrial facility, approximately 18,916 square feet in size, for police heavy vehicle maintenance and repair has been constructed thereon. Exterior walls and major partitions are of concrete masonry and the facility parking areas are bounded by chain link fencing and landscape. Facilities include a fueling station, car wash, auto maintenance shop, mechanic shop, auto body shop, parts storage, offices and restrooms. Parking is provided for the storage of approximately 155 cars.

Western Division Police Station. The Western Division Police station consists of a 16,412 square foot police building with 1,815 square feet of enclosed, partially covered outdoor property storage area and a separate 5,206 square foot six-stall vehicle maintenance garage with covered fuel dispensing island, car wash bay and 845 square foot storage loft. Off-street parking for 217 police and private vehicles is also provided. These facilities are located on a city-owned 4.31-acre parcel of land in San Diego south of Gaines Street, east of Napa Street and north of Friars Road. Construction of this police station was completed, and the station was occupied in July 1984.

Southeastern Division Police Station. The Southeastern Division Police Station Project consists of a single story 16,412 square foot masonry and structural steel frame police building, with 1,815 square feet of enclosed, partially covered outdoor property storage area, and a separate single story 5,206 square foot, six-stall vehicle maintenance garage with covered fuel dispensing island, car wash bay and 845 square foot storage loft. Off-street parking for 217 police and private vehicles is also provided. These facilities are located on a City owned 3.32 acre parcel of land in San Diego on the northeastern corner of Sychar Road and Skyline Drive. Construction of this police station was completed, and the station was occupied in July 1985.

1989 Lease

The MTDB is continuing to develop a regional light rail transit ("LRT") system designed to link downtown San Diego with several outlying communities. See **"THE AUTHORITY — San Diego Metropolitan Transit Development Board."** The real property encumbered by the 1989 Lease (the "1989 Leased Property") is an integral part of this regional transit system.

The 1989 Leased Property is located in downtown San Diego, along a portion of the San Diego Bay waterfront. The 1989 Leased Property extends along the boundary between San Diego's downtown Centre City business core and the adjacent waterfront area, which is oriented towards recreation and commercial activities. Both Centre City and the Bayside Waterfront areas have been redeveloped over the last several years with several new hotels and the addition of the San Diego Convention Center; the City expects development in these areas to continue. In addition to linking original LRT stations, the 1989 Leased Property serves the Centre City and Bayside Waterfront areas and will serve additional areas planned for development in San Diego's bayside area.

The 1989 Leased Property includes a 2.0 mile LRT track length situated primarily within existing railroad right-of-way. The 1989 Leased Property begins with a western branch off original track at the 12th Avenue and Imperial Avenue intersection at the San Diego Trolley, Inc. ("SDTI") 12th Avenue and Imperial Avenue Station. The 1989 Leased Property then continues along original San Diego and Arizona Eastern railway right-of-way for approximately 1,800 feet until it joins the Atchison, Topeka and Santa Fe railroad ("AT&SF") right-of-way paralleling the inland side of Harbor Drive. The 1989 Leased Property proceeds in a north-east direction for approximately one mile. This portion of the 1989 Leased Property includes three LRT stations and serves the City's Convention Center, the Seaport Village retail complex, and several downtown residential developments. At the intersection of California Street and Broadway adjacent to the Santa Fe Depot, the 1989 Leased Property branches into a "Y", with the eastern branch connecting with original LRT track via a diagonal transition through the city block bounded by Broadway, Kettner Boulevard, "C" Street and India Street ("America Plaza"). America Plaza features a retail and office complex located above an LRT station. The northern branch

of the 1989 Leased Property proceeds along existing AT&SF railway track for an additional 3,500 feet to the Grape Street Intersection.

In addition to the LRT alignment, the 1989 Leased Property also includes five recently constructed LRT stations and one relocated LRT station. Except for the American Plaza Station and the 12th Avenue and Imperial Avenue Station, both of which are enclosed buildings, LRT station consists of open-air covered waiting areas equipped with ticket vending machines. The five stations are located in the following areas: (i) the County Center/Little Italy Station located between Beech and Cedar Streets; (ii) the Santa Fe Depot Station located on the west side of the Santa Fe Depot; (iii) the Seaport Village Station located between "G" and Market Streets, east of Kettner Boulevard; (iv) the Convention Center West Station located southeast of the First Avenue crossing of the railroad tracks to an intersection with Harbor Drive; and (v) the Gaslamp-Convention Center Station located at Fifth Avenue and Harbor Drive. In addition, the Santa Fe Depot LRT Station has been relocated from "C" Street to the middle of America Plaza. The six stations are located in strategic areas which maximizes pedestrian access with adjacent centers of activity and provides a pedestrian link between Centre City and Bayside Waterfront areas.

An additional component of this regional transit system is the current construction of a 3.5 mile LRT extension north from Centre City San Diego (Cedar Street) to Taylor Street in the San Diego's Old Town area (the "Old Town extension"). This LRT alignment is being constructed within an active AT&SF Railway corridor. The AT&SF double tracks have been shifted to the west to make room for the LRT double tracks.

Accompanying the construction of the Old Town extension will be three new LRT stations: (i) Airport/Palm Station located at Palm Street, with additional plans to construct a 2,700 car parking structure adjacent to the station and to provide shuttle service to San Diego International Airport at Limbergh Field; (ii) Washington Street Station adjacent to the Mission Hills Brewery in the Middletown area, which will have connecting bus service to provide transportation to Mission Hills and Hillcrest; (iii) Old Town Transit Center Station at Taylor Street, which when complete will be the largest transit interface center in the MTDB area, with bus bays connecting 11 bus lines with the LRT.

MTDB, through SDTI, operates the 1989 Leased Property as extensions of its original South and East line in conjunction with the Bayside extension which will soon be connected with the Old Town extension when it is complete. All lines continue to operate on track which ultimately leads through downtown San Diego to their terminus in San Ysidro and El Cajon, respectively.

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the investment risks inherent in purchasing the Bonds.

Bonds Not a General Obligation

The obligation of the City to make Base Rental Payments does not constitute an obligation of the City for which the City must levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation, nor does it constitute a debt or indebtedness of the City, the County of San Diego, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

City's Base Rental Payments

The Bonds are payable from and secured by the Revenues and certain amounts on deposit in the funds and accounts established under the Indenture. Revenues consist primarily of Base Rental Payments made by the City pursuant to the Amended Leases. Base Rental Payments shall be paid by the City from any and all General Fund monies legally available to the City.

In the event the City's revenue sources are less than its total obligations, the City could choose to fund other municipal services before making Base Rental Payments. The same result could occur if, because of State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. The City's appropriations currently do not exceed the limitation on appropriations under Article XIII B of the California Constitution. See **"APPENDIX A — GENERAL ECONOMIC AND FINANCIAL INFORMATION ON THE CITY OF SAN DIEGO — Limitations on Taxes and Appropriations."**

There are no legal limitations on the ability of the City to enter into other obligations that may constitute additional charges against its general revenues. To the extent that additional obligations are incurred by the City, the general funds available to make Base Rental Payments may be decreased. The City is currently liable on other obligations payable from general revenues. See **"APPENDIX A — GENERAL ECONOMIC AND FINANCIAL INFORMATION ON THE CITY OF SAN DIEGO."**

Abatement

Base Rental Payments may be abated in accordance with the Amended Leases if there is substantial interference with the City's use and possession of any portion of the Leased Property due to damage, destruction, condemnation or defects in title. The amount of abatement shall be such that the resulting Base Rental Payments represent fair consideration for the use and possession of the remaining portions of the Leased Property as to which such damage, destruction, condemnation or title defects do not substantially interfere with the use and right of possession by the City. Such abatement shall continue for the period commencing with the date of the substantial interference due to damage, destruction, condemnation or title defects and ending with the restoration of the Leased Property to tenantable condition. Such reduced or abated Base Rental Payments, together with other monies available to the Trustee, may not be sufficient, after expiration of applicable rental interruption insurance and exhaustion of amounts in the Reserve Account and in the Interest and Principal Accounts of the Revenue Fund, to pay principal and interest with respect to the Bonds in the amounts and at the rates set forth thereon. The failure of the City to make Base Rental Payments because of an abatement would not, under such circumstances, constitute a default under the Amended Leases.

Under the 1986 Lease, the City must maintain coverage from rental interruption insurance equal to an amount sufficient to make lease payments for a period of at least twelve months during which the use of the Projects is interrupted as a result of any of the hazards covered by the fire and extended coverage insurance. Moreover, in the event the City does not maintain earthquake insurance the City shall maintain rental interruption insurance in an additional amount equal to the maximum Lease Payments payable in a twelve-month period, for a total of 24 months. Such insurance shall be maintained throughout the term of the 1986 Lease. Under the 1989 Lease, the City agrees to secure and maintain at all times rental interruption or use and occupancy insurance, in an amount equal to not less than the largest aggregate lease payments to be paid in any 24-month period by the City under the 1989 Lease, to cover loss, total or partial, of the use of the Leased Property as a result of hazards covered by the fire and extended coverage insurance which the City covenants to provide under the 1989 Lease. There can be no assurance that in the event of a loss amounts will be payable pursuant to such insurance or will be adequate to cover Base Rental Payments abated or reduced during the period of loss.

The Amended Leases require that Net Proceeds received in respect of destruction of or damage to the Leased Property by fire or other casualty event shall be paid to the Trustee for application in accordance with the provisions of the Indenture. If the City elects pursuant to the Indenture and the Amended Leases to apply such proceeds to the replacement, repair or reconstruction of the Leased Property, the Base Rental Payments shall again begin to be payable upon restoration of the Leased Property to tenantable condition.

Limited Recourse on Default

Failure by the City to make Base Rental Payments or other payments required to be made under the Amended Leases or failure to observe and perform its other covenants and agreements under the Amended Leases for a period of 30 days after written notice of such failure and request that it be remedied has been given to the City by the Authority or the Trustee constitute events of default under the Amended Leases and permit the Trustee to pursue remedies at law or in equity to enforce such covenants and agreements. In the event of a default, notwithstanding anything herein or in the Indenture to the contrary, THERE SHALL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE BASE RENTAL PAYMENTS OR OTHERWISE DECLARE ANY BASE RENTAL PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE NOR SHALL THE AUTHORITY OR THE TRUSTEE HAVE ANY RIGHT TO REENTER OR RELET THE LEASED PROPERTY EXCEPT AS DESCRIBED IN THE AMENDED LEASES.

The enforcement of any remedies provided in the Amended Leases and the Indenture could prove both expensive and time consuming. If the City defaults on its obligation to make Base Rental Payments with respect to the Leased Property, the Authority or the Trustee may retain the Amended Leases and hold the City liable for all Base Rental Payments on an annual basis. There is no remedy of acceleration of the total Base Rental Payments due over the term of the Amended Leases, and the Trustee would be required to seek a separate judgment each year for that year's defaulted Base Rental Payments.

Alternatively, the Authority or the Trustee may terminate the Amended Leases and proceed against the City to recover damages pursuant to the Amended Leases. Due to the specialized nature of the Leased Property or any property substituted therefor pursuant to the Amended Leases, no assurance can be given that the Trustee will be able to re-let the Leased Property so as to provide rental income sufficient to make payments of principal and interest with respect to the Bonds in a timely manner, and the Trustee is not empowered to sell the Leased Property for the benefit of the Owners of the Bonds. Any suit for money damages would be subject to limitations on legal remedies against cities in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. In addition, if the City defaults on its obligations to make Base Rental Payments, the Trustee may have limited ability to re-let the Leased Property so as to preserve the tax exempt nature of the interest on the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and "APPENDIX B — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Possible Insufficiency of Insurance Proceeds

The Amended Leases obligate the City to keep in force various forms of insurance, subject to deductibles, for repair or replacement of the Leased Property in the event of damage, destruction or title defects, subject to certain exceptions. Net Proceeds from insurance are applied on a pro rata basis between the Owners of the Bonds and the owners of the Prior Obligations. The City and the Authority make no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Amended Leases and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest on the Bonds when due. In addition, certain risks, such as earthquakes, will not always be covered by such insurance.

Common Leased Premises

The Base Rental Payments consist of a portion of the lease payments made by the City pursuant to the 1986 Lease and the 1989 Lease. The lease payments payable under the 1986 Lease are for the use and occupancy of the 1986 Leased Property. Such lease payments also secure the 1986 Obligations which will remain outstanding after the refunding of the 1986 Refunded Obligations. Similarly, the lease payments payable under the 1989 Lease are for the use and occupancy of the 1989 Leased Property, and such lease payments also secure the 1989 Obligations which will remain outstanding after the refunding of the 1989 Refunded Obligations. See **"THE LEASED PROPERTY"** and **"PLAN OF REFUNDING."**

In the event of damage, destruction, condemnation or title defect with respect to the 1986 Leased Property, the net proceeds of any insurance or condemnation awards used to pay or prepay lease payments under the 1986 Lease shall be applied pro rata to the payment of the outstanding 1986 Obligations and that portion of the Bonds allocable to the lease payments made under the 1986 Lease, on a parity basis.

In the event of damage, destruction, condemnation or title defect with respect to the 1989 Leased Property, the net proceeds of any insurance or condemnation awards used to pay or prepay lease payments under the 1989 Lease shall be applied pro rata to the payment of the outstanding 1989 Obligations and that portion of the Bonds allocable to the lease payments made under the 1989 Lease, on a parity basis.

Limitations on Remedies Available to Owners of the Bonds

The enforceability of the rights and remedies of the Owners of the Bonds and the obligations incurred by the City are subject to the following: the Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently entail risks of delay, limitation, or modification of the principal legal documents or their rights.

THE PLAN OF REFUNDING

Purpose of the Issue

The net proceeds of the Bonds will be used to advance refund portions of the Prior Obligations. The 1986 Obligations which are being refunded are referred to as the "1986 Refunded Obligations" and the 1989 Obligations which are being refunded are referred to as the "1989 Refunded Obligations."

Following is a table which identifies the amount of each maturity of each of the Prior Obligations which are to be refunded. In all cases, each such amount constitutes 100% of the corresponding maturity.

REFUNDED OBLIGATIONS

Issue	Maturity	Redemption Date	Amount to be Refunded
1986 Refunded Obligations	September 1, 1995	September 1, 1994	\$ 3,285,000
	September 1, 1996	September 1, 1994	3,510,000
	September 1, 1997	September 1, 1994	3,015,000
	September 1, 1998	September 1, 1994	3,235,000
	September 1, 2005	September 1, 1994	27,730,000
1989 Refunded Obligations	June 1, 2000	June 1, 1997	\$ 1,535,000
	June 1, 2001	June 1, 1997	1,640,000
	June 1, 2009	June 1, 1997	17,885,000

Escrow Funds

In order to effect the advance refunding of the 1986 Refunded Obligations and the 1989 Refunded Obligations, the net proceeds of the Bonds will be deposited in two separate escrow funds: (i) an escrow with First Interstate Bank of California, as escrow agent for the 1986 Refunded Obligations (the "1986 Escrow Agent") pursuant to an Escrow Agreement dated as of April 1, 1994 (the "1986 Obligations Escrow Agreement") among the City, the Authority and the 1986 Escrow Agent, and (ii) an escrow with First Interstate Bank of California, as escrow agent for the 1989 Refunded Obligations (the "1989 Escrow Agent") pursuant to an Escrow Agreement dated as of April 1, 1994 (the "1989 Obligations Escrow Agreement") among the City, the Authority and the 1989 Escrow Agent.

The deposit to be made pursuant to the 1986 Obligations Escrow Agreement will consist of cash and U.S. government securities or ownership interests therein (collectively, "Defeasance Securities") which will be sufficient to pay the principal, premium and accrued interest with respect to the 1986 Refunded Obligations on September 1, 1994, when the 1986 Refunded Obligations will be redeemed.

The deposit to be made pursuant to the 1989 Obligations Escrow Agreement will consist of cash and Defeasance Securities which will be sufficient to pay the principal, premium and accrued interest with respect to the 1989 Refunded Obligations through June 1, 1997, when the 1989 Refunded Obligations will be redeemed.

Ernst & Young, Tucson, Arizona will verify the arithmetical computations used to determine the sufficiency of the deposits of cash and Defeasance Securities described above. Such cash and Defeasance Securities will be available only for the payment of the Prior Obligations for which each escrow is created, and will not be available for the payment of the Bonds.

Estimated Sources and Uses of Funds

The proceeds to be received from the sale of the Bonds, excluding accrued interest, are expected to be applied as follows:

CITY OF SAN DIEGO/MTDB AUTHORITY
Lease Revenue Bonds
(1994 Refundings)
Estimated Sources and Use of Funds

Sources	
Par Amount of the Bonds	\$66,570,000
Less: Original Issue Discount	<u>(284,568)</u>
TOTAL	\$66,285,432
 Uses	
1986 Escrow Deposit	\$42,807,080
1989 Escrow Deposit	22,885,791
Costs of Issuance ⁽¹⁾	216,440
Underwriter's Discount	<u>376,121</u>
TOTAL	\$66,285,432

⁽¹⁾ Costs of Issuance include fees of the Co-Financial Advisors, Co-Bond Counsel and the Trustee, costs for rating the Bonds, Official Statement printing costs and other costs related to the issuance of the Bonds.

THE AUTHORITY

General

The Authority is a joint powers agency created pursuant to the provisions of Chapter 5 of Title 1, Division 7 of the Government Code of the State of California. It was created by means of a joint exercise of powers agreement between the City and the MTDB executed in September of 1987. It is governed by a Board of Directors made up of two members of the City Council of the City and one member of the Board of the MTDB. Its powers include the power to issue bonds and to acquire, construct, manage, maintain and operate public transit facilities and related capital improvements to carry out its purposes. The City Treasurer, Auditor and Comptroller, and Director of Financial Management are its principal financial officers, and the City Attorney of the City serves as its legal counsel.

San Diego Metropolitan Transit Development Board

The San Diego Metropolitan Transit Development Board was created in 1975 pursuant to California law and commenced operations on January 1, 1976. In 1985 the organization's original 8-member Board of Directors was increased to 15 members. The Board currently includes four representatives from the City of San Diego and individual representatives from the Cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway and Santee. A county supervisor is appointed as an additional representative by the San Diego County Board of Supervisors. The Board members elect a representative who, pursuant to the Board's enabling legislation, serves as the Board's chair.

The MTDB was initially charged with the responsibility to plan and construct public mass transit guideways with special emphasis on cost effective transit systems. Since its inception, the MTDB has

acquired the San Diego Transit Corporation, a bus operating system, and the San Diego and Arizona Eastern railway covering over 108 miles of track right-of-way.

The MTDB's responsibilities cover six areas: (a) LRT development, (b) short range metropolitan area transit planning, (c) the preparation of the region's five-year Transportation Improvement Program, (d) fund administration for claims made by local operators for various state and federal funds, (e) provision of overall regional transit services directly or by contract with public or private operators and (f) coordination of regional transit fares, transfer, and services with the various local operators. The transit system within the MTDB's planning and development sphere includes 11 regional routes, 40 local routes, and several dial-a-ride services.

LEGAL MATTERS

Tax Exemption

In the opinion of Orrick, Herrington & Sutcliffe, Los Angeles, California and Williams & Gilmore, La Jolla, California ("Co-Bond Counsel"), based upon existing laws, regulations, rulings and court decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. Co-Bond Counsel are also of the opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. A complete copy of the opinion of Co-Bond Counsel is set forth in Appendix D hereto.

The Internal Revenue Code of 1986 (the "Code") imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the City have covenanted to comply with certain restrictions designed to assure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in federal gross income, possibly from the date of issuance of the Bonds. The opinion of Co-Bond Counsel assumes compliance with these covenants. Co-Bond Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the tax status of the interest on the Bonds.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Co-Bond Counsel express no opinion as to any Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe and Williams & Gilmore.

Co-Bond Counsel are of the opinion, based on existing laws, regulations, rulings and court decisions, that the difference between the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of any maturity of the Bonds is sold and the amount payable at maturity thereof constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. Such discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof. The original issue discount accrues over the term to maturity of each such maturity of each Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to

determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bonds. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase after the initial offering of a substantial amount of such maturity. Owners who do not purchase the Bonds in the initial offering at the initial offering price should consult their own tax advisors with respect to the tax consequences of ownership of the Bonds with original issue discount. All owners of Bonds with original issue discount should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition to the extent that such loss is attributable to accrued original issue discount. Owners of such Bonds should also consult their own tax advisors with respect to the treatment of accrued but unpaid interest on such Bonds under federal individual and corporate alternative minimum taxes.

Although Co-Bond Counsel have rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder's other items of income or deduction. Co-Bond Counsel express no opinion regarding any such other tax consequences.

Legal Opinions

Co-Bond Counsel will render an opinion with respect to the validity and enforceability of the Amended Leases and the Indenture. Copies of such approving opinion will be available at the time of delivery of the Bonds at the expense of the City. Co-Bond Counsel undertake no responsibility for the accuracy, completeness or fairness of the Official Statement. Certain legal matters will be passed upon for the City and the Authority by the City Attorney.

No Litigation

There is no litigation pending against the Authority or the City nor, to the knowledge of the officers of the Authority and the City, threatened, in any court or other tribunal of competent jurisdiction, state or federal, in any way (a) restraining or enjoining the issuance, sale or delivery of any of the Bonds, (b) questioning or affecting the validity of the Bonds, (c) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the Bonds, or (d) questioning or affecting the validity or enforceability of the Amended Leases or Indenture. To the knowledge of the Authority, the City and the City Attorney, there are pending against the Authority and the City lawsuits and claims arising in the ordinary course of the Authority's and the City's activities which taken individually or in the aggregate, could materially affect the City's finances. However, taking into account expected insurance and self-insurance reserves expected to be available to pay liability arising from such actions, the City does not expect any or all such claims to have a material adverse effect on its ability to make Base Rental Payments when due.

Legality for Investment in California

Under provisions of the California Financial Code, the Bonds are legal investments for commercial banks in California to the extent that the Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and, under provisions of the Government Code of the State, the Bonds are eligible for security for deposits of public moneys in the State.

MISCELLANEOUS

Ratings

Moody's Investors Service and Standard & Poor's Corporation have assigned their municipal bond ratings of "Aa" and "AA-", respectively, to the Bonds. The ratings issued reflect only the views of such rating agencies, and any explanation of the significance of such ratings should be obtained from such rating agencies. There is no assurance that such ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by such respective rating agencies if, in the judgment of such rating agencies, circumstances so warrant. The Authority and the City undertake no responsibility either to bring to the attention of the owners of the Bonds any downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of any rating obtained may have an adverse effect on the market price of the Bonds.

Underwriting

Pursuant to the terms of the public bid dated March 22, 1994, Goldman, Sachs & Co., as Underwriter, has contracted to purchase the Bonds at the purchase price of \$65,909,311.80 plus accrued interest from April 1, 1994 to the date of delivery of the Bonds and to re-offer the Bonds pursuant to the terms and conditions set forth on the cover page of this Official Statement. The Underwriter will be obligated to take and pay for all of the Bonds if any Bond is purchased.

Co-Financial Advisors

Public Resources Advisory Group, New York, New York, E. J. De La Rosa & Co., Inc., Los Angeles, California and Municipal Capital Management, Inc., Santa Monica, California (the "Co-Financial Advisors"), have entered into a contract to serve as financial advisors to the City with respect to the sale of the Bonds. The Co-Financial Advisors assisted the City in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Bonds. The Co-Financial Advisors will receive a fee for the above services payable from proceeds of the Bonds.

Additional Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The Authority and the City have not entered into a contractual commitment to provide information on a continuing basis to investors or any other party, except to the extent such information is required to be provided pursuant to the City's contracts with nationally recognized rating organizations.

Copies of the Indenture and the Amended Leases are available upon request with payment of copying, mailing and handling charges by contacting the City at the following address:

The City of San Diego
202 "C" Street, MS 9B
San Diego, California 92101
Attention: Financial Management Director

CITY OF SAN DIEGO

By /s/ JACK McGRORY
City Manager

APPENDIX A

GENERAL ECONOMIC AND FINANCIAL INFORMATION ON THE CITY OF SAN DIEGO

THE CITY OF SAN DIEGO

Introduction

With a total population in excess of 1.1 million and an area of 403 square miles, the City of San Diego (the "City") is the sixth largest city in the nation and the second largest city in California. A major factor contributing to the City's historically steady growth is quality of life. In addition to having one of the world's most favorable climates, the City offers a wide range of cultural and recreational services to both residents and visitors. With mild temperatures year round, the City's numerous beaches, parks, tennis courts, and golf courses are in constant use. Another factor in the City's growth has been its steadily expanding economy. The City's economic base, which in the past was heavily reliant on federal defense spending, has undergone a transformation in recent years. The new economic foundation is based on four major areas: international trade; high tech manufacturing; professional services; and a tourist industry with a strong convention trade component. Each of these areas has continued to register growth despite the current recession, and together they should provide the basis for the City's future economic growth. Overall, the City's employment has dropped 1.4% from 1990 to 1992 due to the effects of the economic slowdown.

The City of San Diego's emergence as a center for international trade has been made possible in part by the Port of San Diego, which offers world class maritime facilities built around one of the world's great natural harbors. The Port of San Diego offers handling services at rates below those of other major west coast ports such as Los Angeles and San Francisco.

The City of San Diego and the San Diego Unified Port District were recently granted the exclusive right to develop a World Trade Center in San Diego. The Center will be located in the downtown area and in addition to the federal conversion dollars San Diego stands to receive, the Center is expected to deliver immediate benefits to the City in the form of increased demand for downtown office space and increased business activity for retailers located near the World Trade Center building. The World Trade Center status will allow San Diego businesses to buy and sell to customers in over 240 cities world-wide.

In fall 1993, the City applied for and was awarded a \$5.7 million U.S. Economic Development Administration Grant. In addition, the City and local partners will contribute \$4.4 million in cash and in-kind donations to foster economic development and international trade activities. This resource, totalling over \$10 million, will be used to operate the World Trade Center and to further San Diego's Economic Adjustment Program Strategy, a regional plan adopted in June 1992 to provide the City with the foundation to build a strong, diversified economic climate.

International trade activity is also facilitated by the City's immediate proximity to Mexico, a major U.S. trading partner, whose rapidly growing economy depends in part on U.S. manufactured products to support development of its new industrial base. Reflective of the San Diego-Mexico connection is the rapid growth of the City's industrial complex located on the Otay Mesa area adjacent to the border. Many of these facilities are twin plants, or "maquiladoras" with operations both in the U.S. and Mexico. Since 1986, 300 companies have moved into the area, generating 3,800 jobs. U.S. Department of Commerce export data indicates the strength of this trade relationship; from 1986 to 1991, the City's exports to Mexico tripled, growing from \$377 million to \$1.279 billion. It is anticipated that the North American Free Trade Agreement (NAFTA) will result in increased trade for San Diego with both Mexico and Canada.

A major component in San Diego's historical growing prominence as a center for "high tech" industry has been the rapid growth of biotechnology based companies. According to a study released by the Ernst & Young accounting firm, San Diego has overtaken Los Angeles and Washington, D.C. to become the fourth largest concentration of biotech firms in the U.S., accounting for 8% of such firms in the nation. During the period July 1991 to June 1992, revenues by San Diego based biotech

companies totaled \$139 million.

The professional services sector, including firms in the business services, health, engineering and management services areas, is expected to add 51,000 jobs to the San Diego economy during the period 1990 to 1997, according to projections prepared by the California Employment Development Department. The service sector has proven extremely resilient, continuing to add jobs in 1991, 1992 and 1993, despite downturns in total nonagricultural employment during the same period.

San Diego's long established tourism industry entered a new phase in 1989 with the opening of the San Diego Convention Center. With the opening of the Center, total convention revenues reached \$547 million in 1992, a 60% increase from 1988. Plans are underway to double the capacity of the Center.

Economic Information

Introduction

The economic and demographic information provided below has been collected from sources which the City deems to be reliable. Because it is difficult to obtain timely regional economic and demographic information, the impact on the City of the national recession which began in 1990 is not apparent in all of the publicly available regional economic statistics provided herein.

Population

Since 1980, the City's population has increased by 296,062 (or by approximately 23,000 new residents annually). While the rate of growth has slowed in recent years, the City's population still grew by 21,000 people in 1993.

Table 1
POPULATION GROWTH
1980 - 1993

<u>Calendar Year</u>	<u>City of San Diego⁽¹⁾</u>	<u>Annual Growth Rate</u>	<u>County of San Diego⁽²⁾</u>	<u>Annual Growth Rate</u>	<u>State of California</u>	<u>Annual Growth Rate</u>
1980	875,538	--	1,861,846	--	23,780,000	--
1985	970,062	2.1%	2,102,500	2.5%	26,358,000	2.1%
1986	995,889	2.7	2,169,900	3.2	26,999,000	2.4
1987	1,019,444	2.4	2,248,500	3.6	27,655,000	2.4
1988	1,044,137	2.4	2,328,300	3.6	28,323,000	2.4
1989	1,073,186	2.8	2,418,200	3.9	29,063,000	2.6
1990	1,110,549	3.5	2,498,016	3.3	29,760,021	2.4
1991	1,128,500	1.6	2,546,800	2.0	30,351,000	2.0
1992	1,150,600	2.0	2,604,500	2.3	30,982,000	2.1
1993	1,171,600	1.8	2,648,600	1.7	31,552,000	1.8

⁽¹⁾ City Planning Department's January 1 estimates which are based on the U.S. Census counts or official State Department of Finance estimates.

⁽²⁾ U.S. Census 1980-1990; State Department of Finance estimates for 1991, 1992, and 1993.

The following chart sets out school enrollment in the San Diego Unified School District.

Table 2
SAN DIEGO UNIFIED SCHOOL DISTRICT
ENROLLMENT AND ATTENDANCE

<u>School Year</u>	<u>Enrollment</u>	<u>Average Daily Attendance</u>
1988-89	116,657	114,065
1989-90	118,889	116,192
1990-91	121,152	118,175
1991-92	123,615	120,448
1992-93	125,125	121,800

Source: San Diego Unified School District

Employment Summary

As seen in Table 3, the City's unemployment rate for calendar year 1993 was 8.0% up from 7.5% in calendar 1992. The increase in the unemployment rate from 1992 to 1993 marked the fourth consecutive increase, following seven consecutive years of falling rates. The City's rate was still lower than the State's at 9.2%, but above the U.S. rate of 6.7%.

Table 3
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND
UNEMPLOYMENT OF RESIDENT LABOR FORCE

Civilian Labor Force City of San Diego (in Thousands)	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Employed	479.0	511.0	534.0	514.0	505.0	507.0	509.6
Unemployed	23.0	23.0	22.0	24.0	34.0	41.0	44.5
Unemployment Rates⁽¹⁾							
City ⁽²⁾	4.5%	4.3%	4.0%	4.5%	6.3%	7.5%	8.0%
County	4.5	4.3	3.9	4.4	6.1	7.4	8.6
California	5.8	5.3	5.1	5.6	7.5	9.1	9.2
United States	6.2	5.5	5.3	5.5	6.7	7.4	6.7

⁽¹⁾ The unemployment rate is computed from unrounded data, and it may differ from rates using the rounded figures in this table.

⁽²⁾ City data is not strictly comparable prior to 1990, due to a change in methodology.

Source: California Employment Development Department, Labor Market Information Division for the State and County; U.S. Bureau of Labor -- Department of Labor Statistics for the United States.

As shown in Table 4, during the period 1988 to 1993, total nonagricultural wage and salary employment in San Diego County recorded a net increase of 14,200 new jobs, resulting in an annual rate of growth for the period of 0.3%. The services and government sectors accounted for most of the increase, with annual growth rates of 3.3% and 1.9% respectively during the period. Combined, these two sectors added 59,000 workers. Other business categories showing growth included wholesale trade, increasing at a rate of 0.2% per year between 1988 and 1993, and nondurable manufacturing, increasing at a rate of 3.2%. These increases were partially offset by reductions in retail trade, durable manufacturing, construction and the finance, insurance and real estate sector. Cutbacks in defense spending and the lingering national recession were the main factors behind the downturns.

Employment levels were down in calendar year 1993, with nonagricultural wage and salary employment averaging 930,800, a decrease of 1.5%, or 14,200 jobs from the previous year, with retail trade, durable goods manufacturing, and construction showing the sharpest declines. Not all major sectors declined; services employment increased by 2,800 workers.

The following table shows wage and salary employment for the various industry groups in San Diego County.

Table 4
SAN DIEGO METROPOLITAN AREA
WAGE AND SALARY EMPLOYMENT⁽¹⁾
(in thousands)

	Annual Average					
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Mining	0.8	0.8	0.7	0.6	0.5	0.5
Construction	57.4	63.8	59.8	50.4	43.3	39.9
Manufacturing	130.1	135.4	137.8	134.7	124.0	116.2
Nondurable Goods	25.7	27.0	28.8	29.3	30.2	30.1
Durable Goods	104.5	108.4	109.0	105.4	93.8	86.1
Transportation, Public Utilities	35.1	35.8	37.2	36.8	34.7	34.8
Trade	223.0	233.6	238.6	230.8	219.7	214.7
Wholesale	41.0	42.8	44.5	42.3	42.6	41.5
Retail	181.9	190.8	194.1	188.5	177.1	173.2
Finance, Insurance, Real Estate	65.0	66.5	66.4	64.3	60.9	60.4
Services	242.5	259.5	274.7	277.3	282.8	285.6
Government	162.8	169.3	177.4	179.5	179.1	178.7
Federal	45.3	47.4	49.2	47.7	45.3	44.2
State and Local	117.6	121.9	128.2	131.8	133.8	134.5
Total Nonagricultural	916.6	964.6	992.5	974.3	945.0	930.8

⁽¹⁾ Figures may not add to total due to independent rounding.

Source: State of California Employment Development Department, U.S. Department of Labor, Bureau of Labor Statistics.

Manufacturing

Despite recent downturns, due in large part to cutbacks in defense spending, manufacturing remains one of San Diego's largest economic sectors. In 1992, total manufacturing output was estimated at \$15.2 billion, accounting for approximately 25% of San Diego County's Gross Regional Product, and more than double 1980's output of \$6.9 billion. During 1993, manufacturing employment fell by 7,800 jobs, with most of the losses occurring in the defense related aerospace and electronics sectors. Employment in the nondurable goods category, including apparel, food processing and chemicals recorded a much smaller decline, falling by 100 jobs in 1993.

To facilitate the transition of San Diego's manufacturing base from defense to non-defense activities, the City applied for and received State and Federal funding to support a comprehensive economic conversion program. Components of the program include a High Technology Transfer Center, a Technology Business Incubator Program, a World Trade Center, and a Seed Capital Fund.

Construction

The construction sector, which fueled much of the City's economic expansion during the 1980's, has slowed in the 1990's due to the continuing recession and a surplus of inventory, particularly in the commercial area. Reflecting this downturn in activity, construction employment was down in 1993 for the fourth consecutive year, falling by 7.9% from 1992 levels. From the period

January to December 1993, construction employment trended upward, growing 8.8%, compared with a 5.3% decline during the same twelve month period in 1992. Supporting the possibility of a recovery in construction has been the upturn in permit valuations and single family authorizations during the last quarter of 1993.

Lack of affordability has been a major obstacle to a resumption of building activity in San Diego; however, with home prices falling for three consecutive years, and prices nearing 1989 levels, affordability has improved considerably. Increased affordability combined with a nearly fixed supply of housing and continuing growth in population should provide the foundation for an eventual resumption in residential construction over the next several years.

Transportation & Utilities

The transportation and utilities sector stabilized in 1993 with a slight increase of 0.3% after falling by 5.7% in 1992.

Retail and Wholesale Trade

Accounting for approximately 23% of total nonagricultural wage and salary employment, the trade sector, consisting of retail and wholesale trade, is a major component of the San Diego economy. Retail trade employment was down in 1993 for the third consecutive year, falling by 2.3%, after a 6.0% drop in 1992. Wholesale trade employment decreased by 2.6% in 1993, after recording a slight increase of 0.7% in 1992.

Finance, Insurance and Real Estate

Employment in the finance, insurance and real estate sector fell by 0.8% in 1993 following a 5.3% drop in 1992. This stabilization trend may reflect a levelling off in the finance and real estate sectors, after several years of decline.

Services

The services sector, which accounted for 31% of all nonagricultural wage and salary employment in 1993, grew by 1.0% in 1993 over the previous year. Business, services, amusement and engineering were the strongest sectors for employment growth.

Government

The government sector, which accounted for 19% of total 1993 nonagricultural wage and salary employment, fell by a modest 0.2% between 1992 and 1993. All of the decline was in the federal sector, as state and local government actually added workers. During 1993, federal employment fell by 2.4%, while the larger state and local employment grew by 0.5%.

Military Employment

The U.S. Department of Defense contributes about \$10 billion annually to the local economy through wages paid to uniformed military and civilian personnel and through purchases of equipment and services from local businesses. The Presidential Base Closure Commission has recommended the closure of the Naval Training Center. The President has approved the Commission's recommendations for base closures throughout California; San Diego County could experience a net gain of between 8,000 and 15,000 military and civilian jobs due to other base closures.

To expedite plans for the transformation from military to civilian use of the military bases in California selected for closure by the Base Closure Commission, the Governor of California established a Base Reuse Task Force, with San Diego Mayor Susan Golding to serve as Chairperson. The purpose

of the Commission is to promote the rapid conversion of these installations to civilian uses that maximize job creation and long term economic growth. Within the City of San Diego, emphasis will be on rapid conversion of the Naval Training Center, which would appear to offer substantial potential given its proximity to San Diego Bay, Downtown San Diego and major commercial/population centers.

Table 5
ACTIVE MILITARY PERSONNEL STATIONED IN SAN DIEGO COUNTY
1988 - 1992

<u>Calendar Year</u>	<u>Military Personnel⁽¹⁾</u>	<u>Civilian Labor Employment</u>	<u>Total Employment</u>	<u>Military Personnel as a Percent of Total Employment</u>
1988	130,600	1,078,400	1,209,000	10.80%
1989	133,700	1,125,900	1,259,000	10.61
1990	134,000	1,121,600	1,255,600	10.68
1991	139,700	1,099,000	1,238,000	11.28
1992	133,700	1,109,900	1,243,600	10.75

⁽¹⁾ Rounded to the nearest hundred.

Source: City of San Diego Chamber of Commerce ; State of California Employment Development Department.

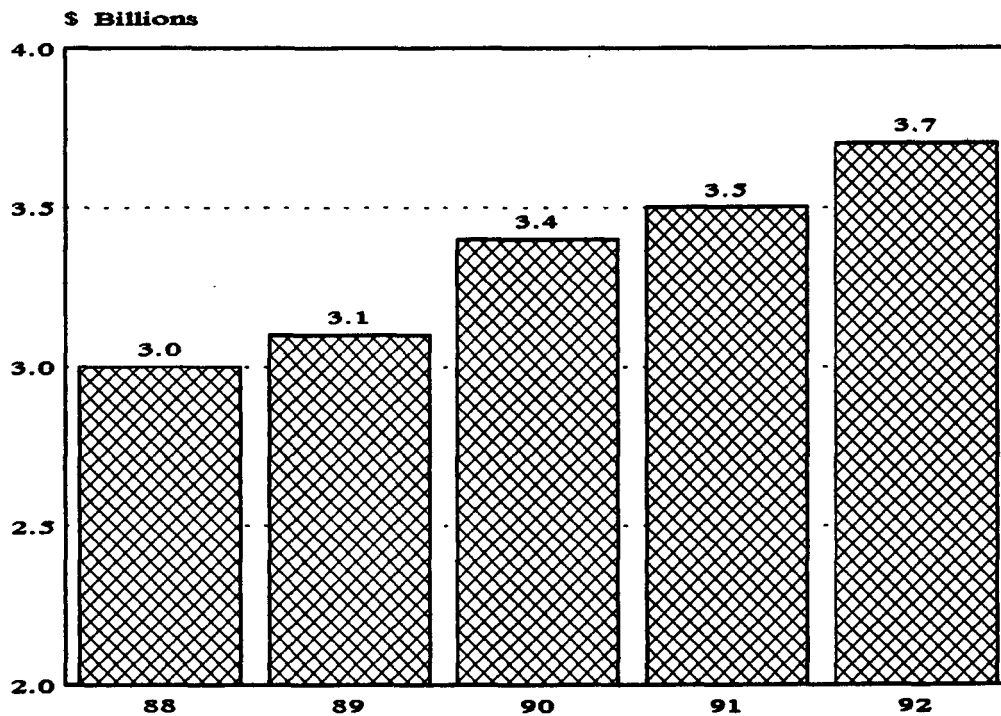
Increased military presence in 1991 may be explained by the higher level of military activity due to the Persian Gulf War. Although personnel are temporarily relocated, counting takes place at the permanently assigned location. Reassignments to the San Diego area to cover for those shipped overseas could have brought about the increased count in the region.

Tourism

Tourism and international trade are sectors of the economy that cut across industry lines, and, as such, should be considered separately from the more specific industry classifications addressed in the preceding section.

The visitor industry is San Diego's third largest in terms of income generation, behind manufacturing and the military. During 1993, an estimated 119,200 workers, or 13% of the total nonagricultural wage and salary employees, were employed in San Diego's visitor industry, down slightly from 1991's figure of 120,800 and below 1990's high figure of 123,300. Although visitor related employment was down in 1992, total visitor spending continued to climb during the year, reaching \$3.7 billion in 1992, up by 5.6% from the previous year. The following graph depicts total visitor spending in San Diego County since 1988.

**Total Visitor Spending
San Diego County
1988-1992**



Source: San Diego Convention & Visitors Bureau

Total visitor spending almost doubled (up 85%) between 1984 and 1992. Contributing to this growth has been a sharp increase in convention activity. Spending by convention delegates totaled \$547 million in 1992, as can be seen in the following table, up from \$218 million in 1984.

**Table 6
CONVENTION INDUSTRY
1989 - 1992**

<u>Calendar Year</u>	<u>Estimated Spending</u>	<u>Number of Conventions</u>	<u>Total Delegate Attendance</u>
1989	\$ 353,493,000	1,769	672,897
1990	432,961,351	1,698	785,224
1991	478,848,919	1,548	792,382
1992	547,019,000	1,279	843,065

Source: San Diego Convention and Visitors Bureau.

In both 1992 and 1993, San Diego International Airport at Lindbergh Field had a record number of airport arrivals, 5.9 million arrivals each year. This figure represents an annual increase of 4.9% over 1991 airport arrivals.

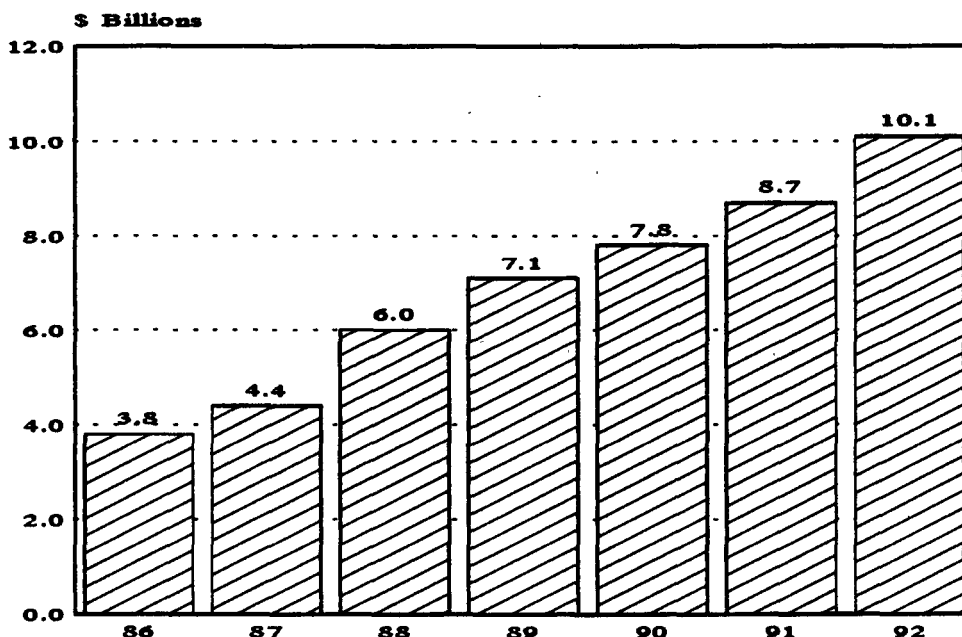
The City of San Diego is the focal point for tourism in the region. Major attractions located in the City include the world-renowned San Diego Zoo which had nearly 3 million visitors in 1992, the San Diego Wild Animal Park with 1992 attendance of 1.5 million, and the Anheuser-Busch owned Sea World. While attendance figures for Sea World are no longer released, attendance was judged to be strong in 1992, with the opening of a major new exhibit *Shark Encounter*, which offers an innovative display of the world's largest collection of captive sharks. Other attractions include the Cabrillo National Monument on Point Loma, with 1.4 million visitors in 1992, Balboa Park, home to the Zoo and a host of other cultural and recreational activities, downtown's historic Gaslamp Quarter, and the Old Town State Park.

In addition to the many permanent attractions available to visitors, San Diego has also been host to a number of major sporting events. Most recently, the City hosted the 1992 America's Cup, which generated an estimated \$300 million in revenues. The City will host the next America's Cup challenge in the spring of 1995. The City has also hosted a Super Bowl (Super Bowl XXII, held in January, 1988) and has been selected to host Super Bowl XXXII, scheduled for January 1998. The 1988 Super Bowl generated approximately \$130 million in revenues.

International Trade

San Diego has experienced substantial growth in international trade in recent years, despite sluggish performance in some other key sectors of the local economy. During 1992, the total dollar value of international trade passing through the San Diego customs district increased by 16.5% to more than \$10.1 billion, with exports of \$5.6 billion and imports of \$4.5 billion. Between 1983 and 1992, the value of international trade grew at an annual rate of 19.0%, compared with an annual growth rate of 4.7% statewide. The following graph depicts total valuation of international trade for the San Diego region since 1986.

**Valuation of International Trade
San Diego Customs District
1986-1992**



Source: U.S. Dept. of Commerce

While not all of the products exported through the San Diego customs district originate in San Diego, a substantial percentage can be attributed to local businesses. According to a Bureau of the Census survey, during 1991 approximately \$3.5 billion in products produced in San Diego were exported to foreign markets. Manufactured products accounted for 96% of this total, with agricultural products and other commodities accounting for the remaining 4%. The major components of San Diego's manufacturing exports are electrical/electronic machinery, non-electrical machinery, scientific instruments, and transportation equipment.

Mexico accounts for 36% of the San Diego produced exports, followed by Canada at 10.9% and Japan at 8.2%. The other significant trading partners are divided between Asia and western Europe. With its border location, a diversified manufacturing base, and one of the world's great natural harbors, San Diego is well positioned to take advantage of planned efforts to relax trade barriers with Mexico and the rapidly growing economies of Asia and Mexico.

Major Employers

Industry in the San Diego area is diverse. Some of the leading industries include Education and Health Services, Aerospace, Financial Services, Food Services, Manufacturing and Entertainment. The following chart sets out major employers in the City as of August 1993.

Table 7
MAJOR EMPLOYERS
As of August 1993

<u>Company</u>	<u>Product/Service</u>
10,000 or More Employees:	
San Diego Unified School District	Education
Sharp Health Care	Health Service
University of California, San Diego	Higher Education
5,000 - 9,999 Employees:	
General Dynamics	Aerospace/Defense Electronics
Pacific Bell	Utility
San Diego Community College District	Higher Education
Scripps Institute of Medicine & Science	Health Services
3,000 - 4,999 Employees:	
Cubic Corporation	Electronics, Elevators
General Dynamics, The Carlyle Group	Aerospace/Defense Electronics
Hughes Aircraft Co.	Aerospace
Kaiser Medical Foundation	Health Care
National Steel & Shipbuilding Co.	Shipbuilding, Repair
San Diego Gas & Electric	Utility
San Diego State University	Higher Education
Science Applications International Corp.	Research and Development
Scripps Clinic & Research Foundation	Health Services
Sea World of California	Entertainment
Solar Turbines, Inc.	Gas Turbine Manufacturing
Price Co./Costco.	Wholesale
2,000 - 2,999 Employees:	
Atlas Hotels, Inc.	Hotel
Bank of America NT & SA	Banking
Foodmaker, Inc.	Food Services
Lucky Stores	Food Services
Mercy Health Care San Diego	Health Care
Nordstrom	Retail
Scripps Memorial Hospital	Health Care
Sony Engineering and Manufacturing of America	Electronics
USAIR	Airline
Wells Fargo Bank	Banking

Source: City of San Diego Chamber of Commerce.

Effective Buying Income

"Effective Buying Income" (EBI), also referred to as "disposable" or "after-tax" income, consists of personal income less personal tax and certain non-tax payments. Personal income includes wages and salaries, other labor-related income (such as employer contributions to private pension funds), and certain other income (e.g., proprietor's income; rental income; dividends and interest; pensions; and welfare assistance). Deducted from this total are personal taxes (federal, state and local), certain non-tax payments (e.g., fines, fees and penalties), and personal contributions to a retirement program.

Table 8 shows the per capita effective buying income for the City, the County, the State, and the United States between 1988 and 1992.

Table 8
PER CAPITA EFFECTIVE BUYING INCOME

	<u>City of San Diego</u>	<u>County of San Diego</u>	<u>State of California</u>	<u>United States</u>
1988	\$14,670	\$14,440	\$14,310	\$12,740
1989	15,155	15,391	15,225	13,158
1990	15,997	15,703	15,625	13,444
1991	16,314	15,919	16,479	13,670
1992	17,005	16,123	16,992	14,015

Source: Sales & Marketing Management Magazine "Survey of Buying Power".

Building Permits

Table 9 provides a summary of the building permit valuations, and the number of new dwelling units authorized in the City for the fiscal years 1989 through 1993, and the first six months of fiscal year 1994.

Table 9
BUILDING PERMIT VALUATIONS
AND NUMBER OF DWELLING UNITS
Fiscal Years Ended June 30

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>7/93-12/93</u>
Valuation (in thousands):						
Residential	\$1,104,638	\$1,092,547	\$ 516,072	\$ 380,666	\$ 235,511	178,217
Nonresidential	<u>851,591</u>	<u>738,998</u>	<u>421,476</u>	<u>340,000</u>	<u>350,921</u>	<u>230,901</u>
Total	<u>\$1,956,229</u>	<u>\$1,831,545</u>	<u>\$ 937,548</u>	<u>\$ 720,666</u>	<u>\$ 586,432</u>	<u>\$ 409,118</u>
Number of New Dwelling Units:						
Single Family	3,739	3,072	1,413	1,018	1,018	824
Multiple Family	<u>6,156</u>	<u>6,318</u>	<u>2,609</u>	<u>1,914</u>	<u>1,881</u>	<u>496</u>
Total	<u>9,895</u>	<u>9,390</u>	<u>4,022</u>	<u>2,932</u>	<u>2,899</u>	<u>1,310</u>

Source: City of San Diego Department of Building Inspection

Business Development Program

The City recognizes the need to improve the local business climate and to aggressively support economic development and job creation activities. To achieve this, the City has established a comprehensive Business Development Program. A key element of this program is the Business Expansion and Retention Program which represents a new pro-active effort on the part of the City to work directly with businesses to improve the retention rate among local firms and to expand the level of investment and job growth.

A primary focus of the City's overall business development effort is to streamline the current permitting process and, when feasible, to eliminate or reduce existing fees and permits. To facilitate this process within the City, an Economic Development Cabinet (EDC), composed of those City departments directly involved in the permitting process (Engineering and Development, Building Inspection, Planning, and Neighborhood Code Compliance) was established. The specific objective of the EDC is to establish a "one-stop" permitting process that will reduce the development permit processing time by as much as one-half.

A pilot fast track program was initiated in November, 1991 focusing on the biomedical industry. The effort was subsequently expanded to include other businesses moving to the area and existing firms in the process of expanding. The first "from scratch" project testing the system involved Costco, a major warehouse retailer, which built a major outlet in the Kearny Mesa area. The "fast track" system was able to reduce the time necessary to complete the Costco permitting process by 50%.

In May 1993, the City Council approved a moratorium on the adoption of new fees. The Council is also considering a wide range of changes to the current fee and permitting process, which, if enacted, will result in significant savings to local businesses in terms of both time and money.

Commercial Activity

In downtown San Diego, significant commercial development has occurred over the last several years as a result of the City's redevelopment efforts. Seaport Village, a 13-acre specialty retail development which opened in 1980, contains 99,000 square feet of specialty retail. The total current assessed valuation is \$13 million. Planning and design are currently underway for an expansion of Seaport Village to include an additional 150,000 square feet of retail and related parking. Development value is estimated at \$50 million. Horton Plaza, a major mixed use-retail, entertainment and parking complex, opened in August 1985. Four major department stores and approximately 150 specialty shops occupy the 900,000 square foot mixed-use center. The current assessed value is \$126 million. The recently completed Paladion is a three-story, plus roof terrace, high-end retail complex containing approximately 105,000 square feet of retail and restaurant use.

Several large office developments containing a total of approximately 1,750,000 square feet have been recently completed. The Emerald-Shapery Center, completed in April 1991, with current assessed valuation of \$101 million contains a 375,000 square foot office building, a 475-room hotel with health club, retail space and restaurants. One America Plaza consists of a hotel, an office development, and an integrated major light-rail transit station for the trolley. The 660,000 square foot office tower with the station was completed in December 1991. Current assessed valuation is \$112 million.

Approximately 2,900 housing units have been constructed including senior citizen housing, market rate condominiums, market rate rental units, luxury condominiums and low and moderate income housing. Construction is underway on 321 condominium units and plans for approximately 1,400 additional residential units are in various stages of design and development. The Meridian, a 27-story luxury residential tower containing 172 condominium units, completed in July 1985, currently has an assessed value of \$103 million.

Hotel development consisting of approximately 3,200 hotel rooms has been completed, including the San Diego Marriott Hotel and Marina, Embassy Suites Hotel and the Pan Pacific Hotel of the Emerald-Shapery Center. The Hyatt Regency Hotel, containing approximately 875 rooms located southeast of Seaport Village, opened in December 1992, with an assessed valuation estimated to be \$50.7 million. The San Diego Convention Center, with 254,000 square feet of prime exhibit space, costing approximately \$160 million, was completed in November 1988. The Convention Center Board has commissioned two studies to assess the viability and funding options of expanding the current Center to 500,000 square feet of prime exhibit space. In addition, preliminary planning and site analysis has begun on a proposed downtown sports arena, of course, any new development is subject to general and local economic conditions as well as availability of funding sources.

Research Facilities

Among the more important local research facilities are the Scripps Clinic and Research Foundation, the Naval Electronics Laboratory Center, the Palomar Observatory and the Salk Biological Research Institute headed by Dr. Jonas Salk.

San Diego was selected as the design integration site for the \$1.2 billion Engineering Design Phase of the International Thermonuclear Experimental Reactor (ITER) project, an internationally funded program to demonstrate the scientific and technological feasibility of using magnetic fusion as a source of electrical power. The ITER facility is located in the Torrey Pines Scenic Park. The University of California at San Diego, through its subcontractor Science Applications, Inc., provides administrative oversight and on-site operational support. The project is expected to serve as a spawning ground to spinoff technologies and businesses, similar to the role played by the Scripps and Salk Institutes, two organizations that provided the catalyst for the City's biomedical industry.

Growth Companies

Many businesses in the City of San Diego offer new products in high technology areas ranging from computer graphics to genetic engineering. The following is a list of some of these companies:

<u>Company</u>	<u>Profile/Comments</u>
Qualcomm, Inc.	Industry leader in fiber optics technology. Recently moved headquarters to San Diego Design Center Building.
Brooktree Corp.	Computer graphics technology firm started 10 years ago with 4 employees and currently supports an annual payroll of \$24 million.
Hitachi Home Electronics	The firm relocated its new manufacturing division headquarters from Anaheim, California to San Diego's Otay Mesa industrial area. The Otay facility will provide warehousing, laboratory and other support services to its assembly plant in nearby Tijuana, Mexico.
Science Applications, Inc.	An international scientific research firm, headquartered in San Diego, with a local payroll of approximately 4,000 employees. Annual sales of \$1.5 billion.
Hybritech Inc.	Manufacturer of invitro diagnostics. Local workforce of 1,000 employees.

The following companies constructed new facilities within the last year:

Calbiochem	Pharmaceutical manufacturer
Telios	Pharmaceutical manufacturer
Idec	Pharmaceutical manufacturer
Scripps Cancer Research Center	Cancer research firm

Transportation

San Diego has a well-developed and relatively uncongested highway system. Access in and out of the region is provided by five major freeways running north and south and three freeways running east and west.

Public transportation through the City and metropolitan surrounding communities is provided by the San Diego/Metropolitan Transit Development Board ("MTDB"). The San Diego Trolley, Inc. operates a fleet of electric trolleys that provides transportation for commuters and tourists from downtown San Diego to San Ysidro (adjacent to Tijuana), and from downtown San Diego to Southeast San Diego and East County. In addition, the newest expansion of the trolley provides transportation service from downtown San Diego to the waterfront area, including the Convention Center. Construction has begun on an extension that will provide service from downtown to the historical Old Town section of the City. The Old Town extension, which will feature a 1871 vintage terminal located in the Old Town State Park, is scheduled for completion in January, 1996. Design work has been completed on the next extension, which will go from Old Town through the Mission Valley area, ending at San Diego Jack Murphy Stadium. Service is scheduled to begin on the Mission Valley extension in mid-1997. A further extension of the trolley is under construction in the East County, which will link the City of Santee with the City of El Cajon and, via the existing East County line, to downtown San Diego.

Proposition A, voter approved in November 1987, authorized a one-half cent increase to the local sales tax to fund transportation improvements for the San Diego region. The City of San Diego expects to receive \$123 million over the next seven fiscal years, 1994-2000, from this source.

State Propositions 108/111/116, voter approved in June 1990, increased the State Gas Tax and authorized the sale of rail bonds. The revenues generated from these measures are to be used to implement a comprehensive statewide transportation funding program through the year 2000. Increased revenues to the City of San Diego resulting from Proposition 111's increased gas tax subventions are estimated at \$66.7 million over the ten year period, 1991-2000. Revenues from this source supplement the City's street maintenance program, and contribute to capital improvements.

State Proposition 108, the Passenger Rail and Clean Air Act, also authorized the sale of general obligation rail transit bonds by the State of California. These rail bonds are to be used to fund up to 50% of the non-Federal cost of eligible projects throughout the State. Eligible transit projects under this program include all of the trolley and commuter rail corridors, with a possibility of \$100 to \$150 million available for trolley and commuter rail projects within the San Diego region. The designated recipients to develop rail infrastructure in the region are MTDB and North County Transit District (NCTD).

A related State ballot measure, Proposition 116, the Clean Air and Transportation Improvement Act, generated revenue from the sale of \$1.99 billion in general obligation rail bonds providing specific allocations to finance rail infrastructure, including intercity, commuter and light rail transit statewide. Similar to State Proposition 108, MTDB and NCTD would be the designated recipients for the San Diego region; \$45 million is estimated to be spent in San Diego County.

Municipal Government and Financial Information

Governmental Organization

The City of San Diego is a chartered city and operates under the Council-Manager form of government. The City Council is comprised of eight members elected by district to serve overlapping four-year terms. The Mayor, who presides over the City Council, is elected at large to serve a four-year term. The City Council, which acts as the City's legislative and policy-making body, selects the City Manager, who is the City's chief administrator and is responsible for implementing the policies and programs adopted by the City Council.

Accounting Practices

The City's accounting policies conform to generally accepted accounting principles applicable to governmental units. The City's Governmental Funds and Expendable Trust and Agency Funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both available and measurable. Certain fines and forfeitures, however, are recorded when received as they are not susceptible to accrual. Expenditures are recognized when the related liability is incurred except for (1) principal of and interest on general long-term debt which are recognized when due; and (2) employee annual leave and claims and judgments for litigation and self-insurance which are recorded in the period due and payable. Proprietary Fund, Pension Trust and Nonexpendable Trust Funds use the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred.

The City prepares financial statements annually in conformity with generally accepted accounting principles for governmental entities which are audited by an independent certified public accountant. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The City's most recent general purpose financial statements for the fiscal year ended June 30, 1993 were audited by Calderon, Jaham & Osborn, CPAs.

Budgetary Process

The City's annual budget, which is published in November, is the culmination of the annual budget process which begins in the fall of the preceding year. Public input on service and program priorities is solicited. This input serves as part of the City Council's priority setting for the City Manager's development of the budget.

Based upon City Council budget priorities, departments submit operating and capital improvement project requests to the City Manager for review by the Financial Management Department. The City Manager evaluates and prioritizes the program requirements, determines funding availability and develops a balanced budget as required by the City Charter. This proposed balanced budget is published and presented to the City Council during April.

City Council review of the proposed budget is conducted during May and June. The first two meetings are dedicated to public comment, while the balance of the meetings are conducted as Council workshops focusing on policy issues.

As required by the City Charter, the City Council adopts the Annual Budget and Appropriation Ordinance no earlier than the date of the first Council meeting in July and no later than the last meeting in July. The adoption of the Appropriation Ordinance requires two noticed public hearings which are usually held on consecutive days. The Annual Tax Rate Ordinance is adopted no later than the last Council meeting in August.

The Financial Management Department works closely with the City Auditor and Comptroller to monitor fund balances. Variations from budget or plans are alleviated in a number of ways, including

expenditure reductions or deferrals. Short term issues are resolved with short term solutions. Because the recent persistent recessionary environment has lasted longer than usual, the City has begun to implement longer term solutions such as using the City's revenue raising flexibility and making permanent reductions to programs.

Five Year Summary of Financial Results

The following summary of financial statements combine the general fund and other general obligation bonds funds from the City's annual financial report. These totals are presented to aggregate financial data only and do not conform with generally accepted accounting practices.

Table 10
COMBINED BALANCE SHEET FOR THE GENERAL FUND
AND OTHER GENERAL OBLIGATION BONDS FUND
June 30, 1989 through 1993
(in thousands)

	1989	1990	1991	1992	1993
ASSETS:					
Cash in Treasury or in Pooled					
Cash Equivalents	\$45,709	\$ 57,826	\$38,677	\$22,359	\$21,450
Cash with Fiscal Agent	837	281	98	78	18
Accounts Receivable--Net	1,100	4,495	5,402	7,393	16,076
Claims Receivable--Net	393	246	259	225	5
Accrued Interest	1,611	2,492	2,666	1,934	2,277
Receivables from Other Agencies--Net	70	70	70	70	70
Taxes Receivable--Net	9,721	10,037	11,835	18,856	15,433
Loan to Redevelopment Agency--Receivable	239	0	0	0	0
From Other Funds--Receivable	0	0	134	43	35,534
Advances to Other Funds	24,917	25,017	26,417	24,427	21,869
Advances to Other Agencies	350	350	350	350	350
Prepaid Reimbursable Items and Deposits	272	290	331	301	784
Total Assets	<u>\$85,219</u>	<u>\$101,104</u>	<u>\$86,239</u>	<u>\$76,036</u>	<u>\$113,866</u>
LIABILITIES:					
Obligations Under Reverse					
Repurchase Agreements	\$15,791	\$21,047	\$10,810	\$ 914	\$1,349
Accrued Wages & Benefits	9,530	11,030	12,947	15,710	16,794
Accounts Payable	2,713	2,476	3,319	2,493	2,606
Deferred Revenue	9,218	9,652	11,396	19,674	18,821
Matured Bonds and Interest Payable	837	281	98	78	18
Contracts and Notes Payable	-	-	-	-	35,500
Advances from Other Funds	-	-	-	-	7
Total Liabilities	<u>\$38,089</u>	<u>\$44,486</u>	<u>\$38,570</u>	<u>\$38,869</u>	<u>\$75,095</u>
FUND BALANCE:					
Reserves:					
For Encumbrances	\$ 9,692	\$ 10,991	\$10,559	\$ 6,101	\$7,313
For Other Advances and Deposits	25,346	25,447	26,847	24,777	22,219
For Debt Service	197	274	102	350	5
Unreserved:					
Designated for Subsequent Years of Expenditure	2,921	4,683	4,453	3,422	3,211
Undesignated	8,974	15,223	5,708	2,517	6,023
Total Fund Equity	<u>47,130</u>	<u>56,618</u>	<u>47,669</u>	<u>37,167</u>	<u>38,771</u>
Total Liabilities and Fund Balance	<u>\$85,219</u>	<u>\$101,104</u>	<u>\$86,239</u>	<u>\$76,036</u>	<u>\$113,866</u>

Source: City of San Diego, Comprehensive Annual Financial Report.

Table 11
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE FOR THE GENERAL FUND AND OTHER GENERAL OBLIGATION BONDS FUND
Years Ended June 30, 1989 through 1993
(in thousands)

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
REVENUES:⁽¹⁾					
Property Taxes and Special Assessments					
Current Year Secured	\$89,081	\$98,042	\$113,059	\$115,399	\$102,913
Other Prop. Taxes and Special Assessments	20,838	22,173	16,517	19,695	19,077
Other Local Taxes	124,936	135,665	130,941	135,215	144,323
Licenses and Permits	7,384	8,677	16,556	19,054	19,909
Fines, Forfeitures and Penalties	12,167	12,829	17,595	13,993	13,951
Revenues from Use of Money and Property	26,953	29,796	30,208	26,842	23,994
Revenues from Other Agencies	40,750	45,871	43,263	41,387	41,684
Charges for Current Services	35,000	39,760	45,028	53,625	52,628
Other Revenue	<u>1,759</u>	<u>1,888</u>	<u>2,354</u>	<u>2,548</u>	<u>2,157</u>
Total Revenues	<u>\$358,868</u>	<u>\$394,701</u>	<u>\$415,521</u>	<u>\$427,758</u>	<u>\$420,636</u>
EXPENDITURES:					
General Government	\$59,108	\$62,325	\$71,387	\$72,510	\$71,202
Public Safety	183,834	197,822	216,915	230,213	231,348
Libraries	12,250	12,202	13,848	15,278	15,277
Park, Recreation and Culture	35,605	36,861	40,218	41,415	40,248
General Services	48,582	51,338	55,416	57,825	57,375
Engineering and Development	13,096	14,972	17,859	22,188	22,664
Debt Service	2,772	2,732	2,696	2,060	1,121
Miscellaneous and Unallocated	<u>9,372</u>	<u>11,473</u>	<u>15,871</u>	<u>10,561</u>	<u>2,768</u>
Total Expenditures	<u>\$364,619</u>	<u>\$389,725</u>	<u>\$434,210</u>	<u>\$452,050</u>	<u>\$442,003</u>
EXCESS (DEFICIENCY) OF REVENUES	<u>(5,751)</u>	<u>4,976</u>	<u>(18,689)</u>	<u>(24,292)</u>	<u>(21,367)</u>
OVER EXPENDITURES					
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	7,548	9,229	17,694	18,065	35,395
Transfers to Other Funds	<u>(6,598)</u>	<u>(4,717)</u>	<u>(7,954)</u>	<u>(4,275)</u>	<u>(12,924)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 950</u>	<u>\$4,512</u>	<u>\$9,740</u>	<u>\$13,790</u>	<u>\$22,471</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER	<u>(4,801)</u>	<u>9,488</u>	<u>(8,949)</u>	<u>(10,502)</u>	<u>1,104</u>
FINANCING SOURCES OVER EXPENDITURES AND					
OTHER FINANCING USES					
FUND BALANCE AT JULY 1	<u>51,931</u>	<u>47,130</u>	<u>56,618</u>	<u>47,669</u>	<u>37,167</u>
Residual Equity Transfers from Other Funds	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>500</u>
FUND BALANCE AT JUNE 30	<u>\$ 47,130</u>	<u>\$ 56,618</u>	<u>\$ 47,669</u>	<u>\$ 37,167</u>	<u>\$38,771</u>

⁽¹⁾ Includes collections for homeowners and business inventory exemptions and prior year's property tax collections.
Source: City of San Diego, Comprehensive Annual Financial Report.

Fiscal Year 1993 Budget

The State's Fiscal Year 1993 Budget resulted in a reduction of \$11.2 million in property tax revenue and \$1.0 million in cigarette tax revenue for the City of San Diego. This was in addition to the \$4.4 million loss in Fiscal Year 1992 of various revenues.

In adopting its Fiscal Year 1993 Budget, the City Council set aside a reserve of approximately \$4 million, as a contingency, to offset unanticipated revenue losses. Throughout Fiscal Year 1993, the rate of growth for major revenue sources slowed. Fiscal Year 1993 revenue projections were based on an expected economic recovery in the first quarter of the calendar year. However, San Diego and California's recovery are lagging behind the rest of the nation. Instead of experiencing an economic recovery, growth in some of the larger revenue sources has been significantly less than projected. Revenue received from sources such as Property Tax, Motor Vehicle License Fees, and Interest Earnings trended below budgeted levels, while sales tax revenues trended consistent with budgeted levels.

During Fiscal Year 1993, in order to minimize the impact of services to the public, a number of temporary expenditure reductions and expenditure deferrals were implemented. In anticipation that economic conditions would improve, some one-time revenues were also utilized to avoid budget reductions.

The operating budget for fiscal year 1993 for the general fund is set out below.

Table 12
OPERATING BUDGET SUMMARY FOR FISCAL YEAR 1993
GENERAL FUND

REVENUE SOURCES:	
Property Taxes	\$134,251,559*
Sales Tax	95,684,539
Transient Occupancy Tax	21,600,000
Property Transfer Tax	2,550,000
Licenses and Permits	18,456,541
Fines, Forfeitures and Penalties	15,249,016*
Interest Earnings	8,570,800
Franchises	21,865,746
Other Rents and Concessions	22,744,550
State Motor Vehicle License Fees	42,042,000*
Other Revenues from Agencies	4,366,301
Charges for Current Services	18,925,088
Transfers from Other Funds	71,384,956
Other Revenue and Balances	<u>3,914,037</u>
Total General Fund Revenues	<u>\$481,605,133</u>
EXPENDITURES:	
Public Safety	\$235,394,644
Parks and Recreation	46,276,893
Sanitation and Health	28,600,878
Other Public Services	94,944,175
Support Services	<u>76,388,543</u>
Total General Fund Expenditures	<u>\$481,605,133</u>

Revenue figures with an asterisk (*) have been impacted by State actions and reallocations.

Source: City of San Diego, Annual Budget Fiscal Year 1993.

Fiscal Year 1994 Budget

The Fiscal Year 1994 Budget was adopted by the City Council on July 27, 1993. It reflects a forecast of negligible growth in revenues due to the weak economic climate in San Diego and California and the impact of the State's budget on the City.

The State faces its third consecutive year of significant gaps between projected revenues and expenditures -- the product of, among other factors, a prolonged recession. The State issued \$2.0 billion in revenue anticipation notes on June 23, 1993 in order to meet the State's cash flow requirements at the end of Fiscal Year 1992-93 and the beginning of Fiscal Year 1993-94.

The Fiscal Year 1993-94 Budget Act signed by the Governor on June 30, 1993, projects that the State General Fund will end Fiscal Year 1992-93 with an accumulated budget deficit of about \$2.7 billion, and a negative fund balance of about \$2.2 billion (the difference being due to certain reserves for encumbrances and school funding costs).

The 1993-94 Budget Act transfers about \$2.6 billion in local property tax revenues from local governments, including cities, counties, special districts and redevelopment agencies, to fund school and community college districts. Approximately \$2.5 billion of this shift would be permanent. The Budget Act eliminates all non-State-funded mandates on local government except those relating to public safety.

The impact of the State's budget on the City of San Diego in Fiscal Year 1993 was a reduction of \$12.0 million in Property Tax revenue and \$1.1 million in cigarette tax revenue. This was in addition to a \$4.4 million impact in Fiscal Year 1992. The State's Fiscal Year 1994 budget was adopted on June 30, 1993, and again included a diversion of Property Tax revenue from the City to the School Districts. In addition, the State enacted legislation that reallocated Motor Vehicle License Fee revenue, and extended the half cent sales tax originally scheduled to end June 30, 1993, to December 31, 1993, increasing the City's Sales Tax revenue. The net impact of the State's actions is a reduction of \$6.9 million to the City's General Fund revenues.

The General Fund portion of the City's budget, which provides services such as police and fire protection, trash collection, library service, parks and recreational programs and other essential services, is \$478.7 million, which is a 0.6% decrease from the Fiscal Year 1993 budget of \$481.6 million. As in Fiscal Year 1993, there are a few one time revenues included in the Fiscal Year 1994 Budget which assists in delaying further budget reductions.

However, the budget is reduced and the number of positions in the General Fund have been reduced by 133 to 6,844. Despite these reductions in personnel, the City's budget reflects priorities of public safety and service to the public, economic development, and building park and street maintenance.

The following table sets out the operating budget for the General Fund for fiscal year 1994.

Table 13
OPERATING BUDGET SUMMARY FOR FISCAL YEAR 1994
GENERAL FUND

REVENUE SOURCES:

Property Tax	\$112,278,846*
Sales Tax	94,781,844
Transient Occupancy Tax	20,092,200
Property Transfer Tax	2,200,000
Licenses and Permits	23,010,440
Fines, Forfeitures and Penalties	20,049,965*
Interest Earnings	7,650,000
Franchises	22,760,630
Other Rents and Concessions	22,450,650
State Motor Vehicle License Fees	44,100,000*
Other Revenue from Agencies	2,110,040
Charges for Current Services	20,794,795
Transfers from Other Funds	83,081,314
Other Revenue and Balance	<u>3,324,820</u>
Total General Fund Revenues	<u>\$478,685,544</u>

EXPENDITURES:

Public Safety	\$240,156,249
Parks and Recreation	44,870,457
Sanitation and Health	31,190,319
Other Public Services	89,332,490
Support Services	<u>73,136,029</u>
Total General Fund Expenditures	<u>\$478,685,544</u>

Revenue figures with an asterisk (*) have been impacted by State actions and reallocations.

Source: City of San Diego, Annual Budget Fiscal Year 1994.

Property Taxes

San Diego County assesses property and collects and distributes secured and unsecured property taxes to the cities, school districts and special districts within the county, including the City. Ad valorem taxes are subject to constitutional limits as discussed under the section "Limitations on Taxes and Appropriations."

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding March 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing the taxes on which there is a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquent penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31 of the fiscal year. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder's office, in order to obtain a lien on certain property of the taxpayer; and (d) seizure and sale of personal property, improvements or possessory interest belonging or assessed to the assessee.

A supplemental assessment occurs upon a change of ownership of existing property and for new construction upon completion. A supplemental tax bill is issued for the difference in property value resulting from the increase in assessed value which is prorated for the remainder of the year.

Effective July 1, 1988, Assembly Bill 454, Chapter 921, eliminated the reporting of the unitary valuations pertaining to public utilities such as San Diego Gas and Electric and Pacific Telephone. In lieu of the property tax on these previously included assessed valuations, the City will receive from the State (through the County) an amount of unitary revenue based upon the unitary property tax received in the prior year.

Table 14
ASSESSED VALUATION
1984 - 1994
(in thousands)⁽¹⁾⁽²⁾

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Secured</u> <u>Property</u>	<u>Unsecured</u> <u>Property</u>	<u>Gross Total</u>	<u>Less</u> <u>Exemptions⁽³⁾</u>	<u>Net Assessed</u> <u>Valuations⁽⁴⁾</u>	<u>Annual Assessed</u> <u>Change</u>
1984	\$26,105,549	\$1,424,427	\$27,529,976	\$742,762	\$26,787,214	8.43%
1985	29,159,036	1,706,487	30,865,523	831,580	30,033,943	12.12
1986	32,934,625	1,893,513	34,828,138	1,020,750	33,807,388	12.56
1987	37,330,349	2,012,161	39,342,510	1,028,573	38,313,937	13.33
1988	41,256,462	2,510,496	43,766,958	1,197,058	42,569,900	11.11
1989	43,175,133	2,923,626	46,098,759	1,257,738	44,841,021 ⁽⁵⁾	5.34 ⁽⁵⁾
1990	48,203,351	3,345,666	51,549,017	1,492,849	50,056,168	11.63
1991	53,756,806	3,885,132	57,641,938	1,676,063	55,965,875	11.81
1992	57,563,431	3,946,532	61,509,963	1,792,948	59,717,015	6.70
1993	59,787,900	4,059,854	63,847,754	2,099,768	61,747,986	3.40
1994	60,586,129	4,218,892	64,805,021	2,360,741	62,444,280	1.13

⁽¹⁾ Assessed valuations are based on 100% of full market value.

⁽²⁾ Includes both locally assessed and State assessed utility property.

⁽³⁾ Excludes homeowners' and business inventory exemptions.

⁽⁴⁾ Net assessed valuation for tax rate purposes. Includes both locally assessed and State assessed utility property.

⁽⁵⁾ As mentioned above, effective July 1, 1988, Assembly Bill 454, Chapter 921, eliminated the reporting of the unitary valuation pertaining to public utilities, making these percentages not comparable in 1988-89. Without such change, growth in net assessed valuations would have been approximately 11%.

Source: *City of San Diego Comprehensive Annual Financial Report for the year ended June 30, 1993*, "Statistical Section" (unaudited), pages 148 and 149. County Assessor's Office, 1993 and 1994.

There are a number of factors that have affected Fiscal Year 1993 property tax revenues. On September 2, 1992, the State of California adopted its Fiscal Year 1993 budget, which included a permanent 9% property tax shift from local governments to schools. This action reduced the City's Fiscal Year 1993 property tax revenues by \$11.2 million. On July 1, 1993, the State of California adopted its Fiscal Year 1994 budget and again reallocated \$12.4 million in property tax revenues to schools.

The County of San Diego defended 2,800 assessment appeal cases in Fiscal Year 1992 and an estimated 12,000 assessment appeal cases are projected in Fiscal Year 1993 and Fiscal Year 1994. The City's portion of the liability associated with the 12,000 appeal cases is estimated to be \$3 million, in which the City has fully reserved this amount from Fiscal Year 1993 revenues.

The vast majority of these cases will be reviewed, and if necessary, reduced under the auspices of Proposition 8. Proposition 8 allows for a temporary reduction in property tax assessments, if the market value falls below the assessed value. This is a temporary reduction in value which is then reviewed annually, and can be increased to the original assessed value (plus 2% CPI increase as required by Proposition 8) as market conditions improve. Most properties in San Diego County have assessed values well below their current market values. Normally, only recently purchased properties that have subsequently declined in value are likely candidates for this temporary reduction.

Tax Collections

Table 15 summarizes the City's secured tax collections over the past ten years.

Table 15
SECURED TAX LEVIES AND COLLECTIONS
1984 - 1993
(in thousands)

<u>Fiscal Year Ending June 30</u>	<u>Tax Levy</u>	<u>Current Year Collections</u>	<u>Current Year Collections as Percentage of Current Tax Levy</u>	<u>Total Tax Collections</u>	<u>Total Collections as Percentage of Tax Levy</u>
1984	\$55,647	\$52,272	93.94%	\$55,009	98.85%
1985	62,204	58,952	94.77	62,192	99.98
1986	70,088	66,448	94.81	69,421	99.05
1987	79,236	74,838	94.45	78,110	98.58
1988	92,545	87,032	94.04	91,268	98.62
1989	102,539	97,895	95.47	101,852	99.33
1990	115,361	109,990	95.34	113,377	98.28
1991	125,823	116,952	92.95	120,510	95.78
1992	127,143	121,308	95.41	125,153	98.43
1993	120,574	114,821	95.23	119,867	99.41

Source: *City of San Diego Comprehensive Annual Financial Report for the year ended June 30, 1993, "Statistical Section"* (unaudited), page 153. City Auditor and Comptroller, 1993.

Table 16 indicates the ten largest property taxpayers in the City.

Table 16
PRINCIPAL TAXPAYERS IN CITY OF SAN DIEGO
June 30, 1993
(in thousands)

<u>Taxpayers</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Percentage of Net Assessed Valuation⁽¹⁾</u>	<u>Approximate Tax Paid</u>
General Dynamics	Aerospace	\$ 455,335	0.74%	\$ 5,087
Pardee Construction	Developer	207,967	0.34	2,812
Equitable Life Assurance	Investment	200,000	0.33	2,257
Pacific Landmark Hotel	Hotel	173,372	0.28	1,946
Sea World	Entertainment	171,877	0.28	1,930
Fashion Valley Venture	Shopping Center	126,135	0.21	1,417
Plaza at La Jolla Village	Shopping Center	130,135	0.21	1,365
San Diego Tower	Hotel/Office/Retail	128,810	0.21	1,353
H.G. Fenton Materials	Retail	54,210	0.09	1,347
Knightsbridge	Hotel/Office/Retail	112,893	0.18	1,210
		<u>\$1,760,734</u>	<u>2.87%</u>	

⁽¹⁾ Total Net Assessed Valuation of \$61,208,407,000.

Note: This table excludes public utilities, including San Diego Gas & Electric Company, Pacific Bell and American Telephone and Telegraph (AT&T), because valuations within the City of San Diego cannot be readily determined.

Source: County of San Diego Assessor's Office.

Limitations on Taxes and Appropriations

Article XIII A of the California Constitution

Section 1(a) of Article XIII A of the California constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by each county and apportioned among the county and other public agencies and funds according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (a) indebtedness approved by the voters prior to July 1, 1978 or (b) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition. Section 2 of Article XIII A defines "full cash value" to mean "the County Assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year or to reflect a reduction in the consumer price index or comparable data for the area under the taxing jurisdiction, or reduced in the event of declining property values caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

In the June 1990 election, the voters of the State approved amendments to Article XIII A permitting the State Legislature to extend the replacement dwelling provisions applicable to persons over 55 to severely disabled homeowners for a replacement dwelling purchase or newly constructed on or after June 5, 1990, and to exclude from the definition of "new construction" triggering reassessment improvements to certain dwellings for the purpose of making the dwelling more accessible to severely disabled persons. In the November 1990 election, the voters of the State approved an amendment of Article XIII A to permit the State Legislature to exclude from the definition

of "new construction" seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Court Challenges to Article XIII A

In early 1989, the United States Supreme Court struck down as a violation of equal protection certain property tax assessment practices in West Virginia which has resulted in vastly different assessments of similar properties. Since Article XIII A provides that property may only be reassessed up to 2% per year, except upon change of ownership or new construction, recent purchasers may pay substantially higher property taxes than long-time owners of comparable property in a community. The Supreme Court in the West Virginia case expressly declined to comment in any way on the constitutionality of Article XIII A. Based on this decision, however, property owners in California brought three suits challenging the acquisition value assessment provisions of Article XIII A. Two cases involved residential property, and one case involved commercial property. In all three cases, State trial and appellate courts upheld the constitutionality of Article XIII A's assessment rules and concluded that the West Virginia case did not apply to California's laws. On June 3, 1991 the United States Supreme Court agreed to hear the appeal in the challenge relating to commercial property, but the plaintiff subsequently decided to drop the case.

On June 18, 1992, the United States Supreme Court upheld the decision in *Nordlinger v. Hahn*, 225 Cal.App:3d 1259, one of the cases involving residential property decided by the State Court of Appeals. The 8 to 1 majority held that the Article XIII A assessment method serves a rational state interest by providing certainty regarding property taxes to homeowners and therefore does not violate provisions of the Equal Protection Clause codified in the 14th Amendment of the U.S. Constitution.

The City cannot predict whether future challenges to the State's present system of property tax assessment will be made, when the ultimate resolution of any challenge will occur or the ultimate effect any decision holding the State's present system of property tax assessment unconstitutional would have on the City's revenues. One possible outcome of a decision to invalidate Article XIII A would be a decrease in the amount of property tax revenues paid to the City. Such a decrease could have a negative impact on the City's ability to pay Base Rental Payments when due.

Article XIII B of the California Constitution

Article XIII B of the California Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services for which the fiscal responsibility is shifted to or from the governmental entity. The "base year" for establishing this appropriations limit is the 1978-79 fiscal year and the limit is adjusted annually to reflect changes in population, consumer prices and certain increases or decreases in the cost of services provided by these public agencies.

Appropriations of an entity of local government subject to Article XIII B generally include any authorizations to expend during a fiscal year the proceeds of taxes levied by or for the entity, exclusive of certain State subventions, refunds of taxes and benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues, most State subventions and the proceeds to the local government entity from (a) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost reasonably borne by such entity) and (b) the investment of tax revenues. Article XIII B provides that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two years.

Article XIII B does not limit the appropriation of money to pay debt service on indebtedness existing or authorized as of January 1, 1979, or for bonded indebtedness approved thereafter by a vote of the electors of the issuing entity at an election held for that purpose.

In the June 1990 election, the voters of the State approved Proposition 111, which amended the method of calculating State and local appropriations limits. Proposition 111 made several changes to Article XIII B, three of which are reflected in the City's annual computation of its appropriation limit. First, the term "change in the cost of living" was redefined as the change in the California per capita personal income ("CPCPI") from the preceding year. Previously the lower of the CPCPI or the United States Consumer Price Index was used. Second, the appropriations limit for the fiscal year was recomputed by adjusting the 1986-1987 limit by the CPCPI for the three subsequent years. Third, Proposition 111 excluded appropriation for "all qualified capital outlay projects, as defined by the Legislature" from the definition of "appropriations subject to limitation."

Article XIII B allows voters to approve a temporary waiver of a government's Article XIII limit. Such a waiver is often referred to as a "Gann limit waiver." The length of any such waiver is limited to four years. In the November 1987 election, San Diego voters approved a four year increase in the City's Article XIII B limit (for fiscal years 1988 through 1991). In June 1990, San Diego voters approved another four year increase in the City's Article XIII B limit (for fiscal years 1992 through 1995). The Gann limit waiver does not provide any additional revenues to the City or allow the City to finance additional services. At the time of preparing the Fiscal Year 1993-94 Budget, the City calculated its appropriations limit at \$659,301,246. The 1992-93 Fiscal Year Budget adopted by the City included appropriations of \$344,316,951 which were subject to the limit. The impact of the appropriations limit on the City's financial needs in the future is unknown.

Both Article XIII A and XIII B were adopted as measures that qualified for the ballot pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

Statutory Spending Limitations

A statutory initiative ("Proposition 62") was adopted by the voters of the State at the November 4, 1986 General Election which (a) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within the jurisdiction, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax is imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (e) prohibits the imposition of transaction taxes and sales taxes of the sale of real property by local governmental entities and (f) requires that any tax imposed by a local governmental entity on or after March 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988. Several recent decisions of State Courts of Appeal have held that all or portions of the provisions of Proposition 62 are unconstitutional and it is questionable whether Proposition 62 applies to chartered cities in any event.

The City cannot predict the outcome of the litigation concerning the validity of Proposition 62. If ultimately found valid and applicable to chartered cities, however, Proposition 62 could affect the ability of the City to continue the imposition of, or retain, certain taxes, such as sales and transient occupancy taxes, and further restrict the City's ability to raise revenue.

Labor Relations

Most City employees are represented by one of four labor organizations: The American Federation of State and County Municipal Employees (Local 127), which represents approximately 2,200 employees; The Municipal Employees Association ("MEA") and Unrepresented Employees, which total approximately 4,100 employees; The Police Officers Association ("POA"), which represents approximately 1,800 employees; and the International Association of Firefighters (Local 145), which

represents approximately 900 employees. All four labor organizations have one year agreements that expire June 30, 1994. MEA and Local 127 are to receive a 1% salary increase on June 4, 1994, while POA will receive a 2% increase effective January 2, 1994 and Local 145 will receive a 1% salary increase effective June 4, 1994. Approximately 450 employees are unclassified and are not represented by bargaining units. These employees will receive a 1% salary increase effective June 4, 1994.

Pension Plan

All City full-time employees participate with the full-time employees of the San Diego Unified Port District in the City Employees' Retirement System ("CERS"). CERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City and the District. Through various benefit plans, CERS provides retirement benefits to all general and safety (police and fire) members.

The CERS plans are structured as defined benefit plans in which benefits are based on salary, length of service and age. City employees are required to contribute a percentage of their annual salary to CERS. State legislation requires the City to contribute to CERS at rates determined by actuarial valuations.

As of the City's last annual valuation dated March 13, 1993, the funding ratio of the CERS fund was 95.2%, up from the previous year's 94.6%.

Insurance, Claims and Litigation

The City is self-insured for its public liability claims exposure and its workers' compensation, long-term disability and employee group health coverage. Worker's compensation, long-term disability, and employee group health coverage are accounted for in the Self Insurance Fund, which is one of the Internal Service Funds. For workers' compensation, disability and health coverage, each participating fund contributes an amount equal to an actuarially determined rate multiplied by the gross salaries payable from that fund. The City also maintains within the Self Insurance Fund a reserve for public liability claims. The City maintains commercial property insurance on all City owned buildings of an insurable nature. The City currently carries property and extended loss insurance coverage of \$200 million per occurrence on all City buildings, with earthquake insurance on all bond-funded buildings. Depending on availability and affordability of such earthquake insurance, the City may elect not to purchase such coverage in the future. The City is not required to maintain earthquake insurance with respect to the Facilities.

The City of San Diego is a public agency which is subject to liability for the negligent acts or omissions of its officers and employees acting within the scope of their duty. The City has a self-insured liability of \$3 million. For liability between \$3 to \$22 million the City purchases insurance in layers, for its public liability exposure. This exposure is governed per California Government Code Section 900, et seq. The City has incurred annual claims payments as follows:

<u>Fiscal Year</u>	<u>Amount</u>
1992	\$8,536,931
1993	7,302,613
1994 (Budget)	5,700,000

In addition, the City has a self-insurance reserve of \$3.7 million as of June 30, 1993.

The City has no pending litigation nor is it aware of any threatened litigation challenging its political existence or contesting its ability enter into financial arrangements such as the Lease Agreement or to levy and collect *ad valorem* taxes.

Bonded and Other Indebtedness

City Debt Structure

The City has never failed to pay principal of or interest on any debt or lease obligation when due. In addition, the City has issued bonds or entered into installment purchase contracts secured by and payable out of loans and installment sale contracts, in order to provide conduit financing for single and multi-family housing, industrial development, and 501(c)(3) non-profit corporations. These bonds and certificates of participation are not secured by City general funds or revenues.

Long-Term Obligations

As of June 30, 1993, the City had \$26,040,000 aggregate principal amount of long-term general obligation bonded indebtedness outstanding. The City has never defaulted on bonded indebtedness for which it was the real obligor or on lease payment obligations incurred. The City has recently hired a financial advisor to review the City's outstanding debt and to provide a comprehensive refinancing feasibility study. The following table is a schedule, by years, of payments required by the City and its oversight entities with respect to future obligations, as of June 30, 1993.

**Table 17
FUTURE OBLIGATIONS**

(in thousands)

Fiscal Year Ending	General Obligation	Special Assessment	Tax Allocation	Contracts	Notes	Capital Lease
<u>June 30</u>	<u>Bonds</u>	<u>Bonds</u>	<u>Bonds</u>	<u>Payable</u>	<u>Payable</u>	
1994	\$23,499	\$12,811	\$5,395	\$3,368	\$1,087	
1995	22,858	12,879	5,391	2,518	1,089	
1996	22,884	12,895	5,385	368	5,817	
1997	23,110	12,849	5,385	368	3,655	
1998	22,477	12,836	5,377	326	658	
1999-2003	114,312	61,185	24,467	1,024	3,337	
2004-2008	84,019	59,493	23,438	64	3,465	
Thereafter	<u>26,933</u>	<u>75,690</u>	<u>4,675</u>	<u>64</u>	<u>58,206</u>	
Sub-Total	\$340,092	\$260,638	\$79,513	\$8,100	\$77,314	\$ 37
Less amounts representing interest	<u>(133,737)</u>	<u>(131,781)</u>	<u>(28,558)</u>	<u>(1,387)</u>	<u>(4,135)</u>	
Total	<u>\$206,355</u>	<u>\$128,857</u>	<u>\$50,955</u>	<u>\$6,712</u>	<u>\$73,179</u>	<u>\$ 37</u>

Source: *City of San Diego Comprehensive Annual Financial Report for year ending June 30, 1993, page 18-26.*

Prior-Years' Defeasance of Debt

In prior years, the City, the Redevelopment Agency of the City of San Diego and the Open Space Park Facilities District No. 1 defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 1993, \$114,645,000 of such defeased bonds are still outstanding.

Short-Term Borrowings

The City has issued tax anticipation notes since fiscal year 1967-68 (except for fiscal year 1978-79) to cure periodic General Fund cash flow deficits. As a result of a tax law change that allowed funding of a working capital advance, the amount issued in fiscal years 1993 and 1994 increased substantially over prior years. The following table presents the past 10 year history of the City's temporary borrowings:

Table 18
TEMPORARY BORROWINGS
1985 - 1994
(in thousands)

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
1985	\$30,000
1986	36,000
1987	50,000
1988	5,000
1989	28,000
1990	40,000
1991	49,000
1992	57,000
1993	102,000
1994	100,500

Source: City of San Diego.

The City has entered into various lease arrangements under which the City must make annual payments to occupy public buildings or use equipment necessary for City operations. Securities have been issued which certificate these lease arrangements.

The following table is a schedule by years of future minimum rental payments required under operating leases entered into by the City that have initial or remaining noncancelable lease terms in excess of one year, as of June 30, 1993:

Table 19
FUTURE MINIMUM RENTAL PAYMENTS
(in thousands)

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
1994	\$8,269
1995	7,812
1996	7,197
1997	6,758
1998	6,560
Thereafter	<u>\$33,011</u>
Total minimum payments	<u>\$69,607</u>

Note: Rent expense as related to operating leases was approximately \$8,778,000 for the year ended June 30, 1993.

Source: *City of San Diego, Comprehensive Annual Financial Report for year ending June 30, 1993, page 18-30.*

Overlapping Debt and Debt Ratios

The City contains numerous school districts and special purpose districts, such as for water and sanitation, many of which have issued general obligation bonds. A statement of overlapping debt is presented below. Some of the issues may be payable from self-supporting enterprises or revenue sources other than property taxation. Revenue bonds, tax allocation bonds, and special assessment bonds are not included in the tabulation; lease revenue obligations payable from the City General Fund or equivalent sources are included.

Table 20
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
JUNE 30, 1993
(in thousands)

<u>Jurisdiction</u>	<u>Debt Outstanding June 30, 1993</u>	<u>Percentage Applicable to City of San Diego</u>	<u>Amount Applicable to City of San Diego</u>
City of San Diego	\$ 26,040	100.000%	\$ 26,040 ⁽¹⁾
City of San Diego Certificates of Participation	46,735	100.000	46,735
City of San Diego 1915 Act Bonds	128,857	100.000	128,857
City of San Diego Redevelopment Agency	50,995	100.000	50,995
City of San Diego Stadium and Planetarium Authorities	18,855	100.000	18,855
City of San Diego Light Rail Transit Authority	28,460	100.000	28,460
Metropolitan Water District	664,205	7.831	52,014
Northern San Diego Hospital District	1,970	33.078	652
Poway Unified School District	11,845	77.604	9,192
San Diego Community College District	17,760	99.895	17,741
San Diego County Building Authorities	82,795	45.412	37,599
San Diego County General Fund Obligations	339,248	47.543	161,289
San Diego County Water Authority	453,753	49.335	223,859
San Diego Open Space Park Facilities District #1	66,885	100.000	66,885
San Diego Unified Port District	2,160	87.278	1,885
San Diego Unified School District	232,580	99.895	232,336
Other School and Community College Districts	28,206	various	279
Other Special Districts	8,677	various	461
TOTAL GROSS DIRECT AND OVERLAPPING BONDED DEBT			\$1,104,134⁽²⁾
<u>Less:</u>			
Bonds Paid by Water Revenue:			
Helix, Otay Mesa and Pomerado Water Districts			461
Metropolitan Water District			52,014
San Diego County Water Authority			223,859
City of San Diego Stadium and Planetarium Authorities (100% self-supporting)			18,855
San Diego Open Space Park Facilities District #1			66,885
San Diego Unified Port District (100% self-supporting)			1,885
TOTAL GROSS DIRECT AND OVERLAPPING BONDED DEBT			363,959
NET DIRECT AND OVERLAPPING BONDED DEBT			<u>\$ 740,175</u>
<u>1992-1993 Assessed Valuation (100% Of Full Value):</u>			
\$64,662,936 (including the redevelopment tax allocation increment of \$2,218,656)			
<u>Ratios to Assessed Valuation</u>			
City of San Diego Gross Direct Debt (\$142,625)			0.22%
City of San Diego Net Direct Debt (\$123,770)			0.19%
City of San Diego and Open Space District Gross Direct Debt (\$209,510)			0.32%
City of San Diego and Open Space District Net Direct Debt (\$123,770)			0.19%
TOTAL GROSS DEBT			1.71%
TOTAL NET DEBT			1.14%

⁽¹⁾ Excludes \$12,797,000 Revenue bonds.

⁽²⁾ Excludes revenue and tax allocation bonds.

Source: City of San Diego, Comprehensive Annual Financial Report for year ending June 30, 1993 "Statistical Section" (Unaudited), page 154.

APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture and other legal documents relating to the Bonds. This summary does not purport to be comprehensive and reference should be made to such documents for full and complete statements of their provisions.

CONTENTS

	<u>Page</u>
INDENTURE DEFINITIONS	B-2
THE INDENTURE	B-8
DEFINITIONS RELATING TO THE 1986 OBLIGATIONS	B-21
THE LEASE AGREEMENT (1986 OBLIGATIONS)	B-22
THE ASSIGNMENT AGREEMENT (1986 OBLIGATIONS)	B-27
THE TRUST AGREEMENT (1986 OBLIGATIONS)	B-27
THE FIRST AMENDMENT TO LEASE AGREEMENT (1986 OBLIGATIONS)	B-31
THE FIRST AMENDMENT TO ASSIGNMENT AGREEMENT (1986 OBLIGATIONS)	B-33
THE FIRST SUPPLEMENTAL TRUST AGREEMENT (1986 OBLIGATIONS)	B-33
DEFINITIONS RELATING TO THE 1989 OBLIGATIONS	B-35
THE PROPERTY LEASE (1989 OBLIGATIONS)	B-35
THE LEASE AGREEMENT (1989 OBLIGATIONS)	B-36
THE TRUST AGREEMENT (1989 OBLIGATIONS)	B-38
THE FIRST AMENDMENT TO LEASE AGREEMENT (1989 OBLIGATIONS)	B-43
THE FIRST SUPPLEMENTAL TRUST AGREEMENT (1989 OBLIGATIONS)	B-44

INDENTURE DEFINITIONS

Additional Bonds

The term "Additional Bonds" means all lease revenue bonds of the Authority authorized by and at any time Outstanding pursuant hereto and executed, issued and delivered in accordance with the Indenture.

Amended Leases

The term "Amended Leases" means 1986 Lease and the 1989 Lease.

Amended Trust Agreements

The term "Amended Trust Agreements" means the 1986 Trust Agreement and the 1989 Trust Agreement.

Base Rental Payments

The term "Base Rental Payments" means, collectively, the New Lease Payments (as defined under the 1986 Lease) and the New Lease Payments (as defined under the 1989 Lease).

Bonds

The term "Bonds" means the 1994 Bonds and all Additional Bonds.

Business Day

The term "Business Day" means a day of the year which is not a Saturday or Sunday, or a day on which banking institutions located in California are required or authorized to remain closed, or on which the New York Stock Exchange is closed.

Certificate of the Authority

The term "Certificate of the Authority" means an instrument in writing signed by the President, the Vice President, the Secretary or any Assistant Secretary of the Authority, or by any other officer of the Authority duly authorized by the Authority for that purpose.

Closing Date

The term "Closing Date" means April 12, 1994.

Code

The term "Code" means the Internal Revenue Code of 1986, as amended.

Corporate Trust Office of the Trustee

The term "Corporate Trust Office of the Trustee" means the principal corporate trust office of the Trustee in Los Angeles, California or such other or additional offices as may be specified to the Authority by the Trustee in writing.

Costs of Issuance

The term "Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City or the Authority relating to the issuance, sale and delivery of the Bonds and the execution and delivery of the Amended Leases, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee (including legal fees), financing discounts, legal fees and charges, insurance fees and charges, financial and other professional consultant fees, costs of rating agencies or credit ratings, fees for transportation and safekeeping of the Bonds and charges and fees in connection with the foregoing.

Financial Newspaper

The term "Financial Newspaper" means The Wall Street Journal or The Bond Buyer or any other newspaper or journal printed in the English language publishing financial news and selected by the City, whose decision shall be final and conclusive.

Fiscal Year

The term "Fiscal Year" means each annual period of the Authority which, as of the date hereof, is the period from July 1 to the following June 30.

Indenture

The term "Indenture" means the Indenture, dated as of April 1, 1994, between the Authority and the Trustee, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Indentures executed pursuant to the provisions thereof.

Information Services

The term "Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 17302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Moody's Investors Service's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard and Poor's Authority's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other services providing information with respect to called bonds, or to such services as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

Leased Property

The term "Leased Property" means, collectively, the real property and improvements encumbered by the Amended Leases.

Maximum Annual Debt Service

The term "Maximum Annual Debt Service" means, as of any date of calculation, the maximum during any Bond Year of the sum of (1) the interest payable on all Outstanding Bonds during such Bond Year, assuming that all Outstanding Serial Bonds are retired as scheduled and that all Outstanding Term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of the sale of any Bonds), (2) the principal amount of all Outstanding Serial Bonds maturing by their terms during such Bond Year, and (3) the principal amount of all Outstanding Term Bonds required to be redeemed or paid during such Bond Year (together with the redemption premiums, if any, thereon).

Net Proceeds

The term "Net Proceeds" means, collectively, the net proceeds of any insurance or condemnation award resulting from any damage or destruction of any portion of the Leased Property payable in accordance with any of the Amended Leases.

1986 Lease

The term "1986 Lease" means the Lease Agreement dated as of May 1, 1986 by and between the Authority, as successor to Rauscher Pierce Refsnes Leasing, Inc., and the City, as amended by the First Amendment to Lease Agreement dated as of April 1, 1994 by and between the Authority and the City, and as such a lease may be further amended or modified.

1989 Lease

The term "1989 Lease" means the Lease Agreement dated as of June 1, 1989 by and between the Authority and the City, as amended by the First Amendment to Lease Agreement dated as of April 1, 1994 by and between the Authority and the City, and as such a lease may be further amended or modified.

1986 Refunded Obligations

The term "1986 Refunded Obligations" means the City of San Diego Refunding Certificates of Participation (Police Capital Improvements Projects) refunded with the proceeds of the 1994 Bonds.

1989 Refunded Obligations

The term "1989 Refunded Obligations" means the City of San Diego/MTDB Authority 1989 Lease Revenue Bonds (San Diego Bayside Light Rail Transit Extension) refunded with the proceeds of the 1994 Bonds.

1986 Trust Agreement

The term "1986 Trust Agreement" means the Trust Agreement dated as of May 1, 1986 by and among Bank of America National Trust and Savings Association, as trustee, Rauscher Pierce Refsnes Leasing, Inc. and the City, as supplemented and amended by the First Supplemental Trust Agreement dated as of April 1, 1994 by and among First Interstate Bank of California, as trustee, the Authority and the City, and as such Trust Agreement may be further supplemented and amended.

1989 Trust Agreement

The term "1989 Trust Agreement" means the Trust Agreement dated as of June 1, 1989 by and between the Authority and First Trust of California, National Association, as trustee, as supplemented and amended by the First Supplemental Trust Agreement dated as of April 1, 1994 by and between the Authority and First Interstate Bank of California, as trustee, and as such Trust Agreement may be further supplemented and amended.

1994 Bonds

The term "1994 Bonds" means all lease revenue bonds of the Authority authorized by and at any time Outstanding pursuant hereto and executed, issued and delivered in accordance with the Indenture.

Opinion of Counsel

The term "Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority or the City.

Outstanding

The term "Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture all Bonds theretofore or thereupon executed by the Authority and authenticated and delivered by the Trustee pursuant hereto, except --

- (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Bonds paid or deemed to have been paid within the meaning of the Indenture; and
- (3) Bonds in lieu of or in substitution for which other Bonds shall have been executed by the Authority and authenticated and delivered pursuant hereto.

Owner

The term "Owner" means any person who shall be the registered owner of any Outstanding Bond, as shown on the registration books required to be maintained by the Trustee pursuant to the Indenture.

Permitted Investments

The term "Permitted Investments" means any of the following to the extent then permitted by law and the Indenture:

- (1) United States of America Treasury bills, notes, bonds or certificates of indebtedness, or obligations of, or obligations guaranteed directly or indirectly by, the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America or any Federal Reserve Bank) or securities or other instruments evidencing ownership interests in such obligations or in specified portions of the interest on or principal of such obligations;

(2) (i) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation or the Tennessee Valley Authority, or (ii) obligations, participations or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Federal National Mortgage Association (excluding stripped mortgage backed securities which are valued at greater than par on the unpaid principal), or (iii) guaranteed portions of Small Business Administration notes, or (iv) obligations, participations or other instruments of or issued by a federal agency or a United States of America government-sponsored enterprise; provided, however, that prior to investing in investments described in clause (iv) hereof, the City shall have provided to the Trustee a Certificate of the City that such investment shall have been approved for investment hereunder by Moody's Investors Service and Standard & Poor's Corporation;

(3) Bills of exchange or time drafts drawn on and accepted by a commercial bank (including the Trustee), otherwise known as bankers acceptances, which are eligible for purchase by members of the Federal Reserve System and which are drawn on any bank the short-term obligations of which are of the highest letter and numerical rating category as provided by Moody's Investors Service and Standard & Poor's Corporation; provided that purchases of eligible bankers acceptances may not exceed 270 days' maturity;

(4) Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Moody's Investors Service and Standard & Poor's Corporation, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of five hundred million dollars (\$500,000,000) and that have an "A" or higher rating for the issuer's unsecured debentures, other than commercial paper, as provided by Moody's Investors Service and Standard & Poor's Corporation; provided that purchases of eligible commercial paper may not exceed 180 days maturity nor represent more than 10% of the outstanding commercial paper of an issuing corporation;

(5) Certificates of deposit, whether negotiable or non-negotiable, issued by a state or national bank (including the Trustee) or a state or federal savings and loan association, provided that such certificates of deposit shall be either (A) continuously and fully insured by the Federal Deposit Insurance Corporation or (B) have maturities of not more than 365 days and issued by any state or national bank or a state or federal savings and loan association, the short term obligations of which are rated in the highest short term letter and numerical rating category by Moody's Investors Service and Standard & Poor's Corporation;

(6) Any repurchase agreement with any state or national bank (including the Trustee) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is either (A) with any institution which has debt rated no lower than "AA" or whose commercial paper is rated no lower than "P-1" by Moody's Investors Service and no lower than "A-1" by Standard & Poor's Corporation; (B) with any corporation or other entity that falls under the jurisdiction of the Federal Bankruptcy Code provided that: (a) the term of such repurchase agreement is less than one year or due on demand; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the market value of the collateral is maintained at levels acceptable to Moody's Investors Service and Standard & Poor's Corporation as evidenced by a Certificate of the City delivered to the Trustee; (d) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately; (e) the repurchase agreement securities must be either obligations of, or fully guaranteed as to principal and interest by, the United States of America or any agency of the United States of America, certificates of deposit or bankers' acceptances; and (f) repurchase agreement securities are free and clear of any third-party lien or claim; or (C) with financial institutions insured by the Federal Deposit Insurance Corporation or any broker-dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation; provided that: (a) the market value of the collateral is maintained at levels acceptable to Moody's Investors Service and Standard & Poor's Corporation as evidenced by a Certificate of the City delivered to the Trustee; (b) the Trustee or a third party acting

solely as agent for the Trustee has possession of the collateral; (c) the Trustee has a perfected first priority security interest in the collateral; (d) the collateral is free and clear of third-party liens and in the case of a Securities Investors Protection Corporation broker was not acquired pursuant to a repurchase agreement or reverse repurchase agreement; and (e) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral immediately;

(7) Certificates, notes, warrants, bonds or other evidence of indebtedness of the State of California or of any political subdivision or public agency thereof which are rated in the highest short-term rating category or within one of the two highest long term rating categories of Moody's Investors Service and Standard & Poor's Corporation (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);

(8) For amounts less than \$10,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank, or state or federal savings and loan association in the State of California, fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any affiliate thereof;

(9) Investments in taxable government money market portfolios restricted to obligations maturing in one year or less issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America and rated in either of the two highest rating categories by Moody's Investors Service and Standard & Poor's Corporation, including funds for which First Interstate Bancorp, its affiliates or subsidiaries provide investment advisory or other management services; and

(10) Guaranteed investment contracts or funding agreements (in either case approved for investment hereunder by Moody's Investors Service and Standard & Poor's Corporation as evidenced by a Certificate from the City to the Trustee) with insurance companies rated at the time of execution thereof Aa or AA as to claims paying ability by Moody's Investors Service and Standard & Poor's Corporation, or such agreements with securities dealers, commercial banks or insurance companies rated within one of the two highest long term rating categories of Moody's Investors Service and Standard & Poor's Corporation.

Prior Obligations

The term "Prior Obligations" means the \$63,330,000 City of San Diego Refunding Certificates of Participation (Police Capital Improvements Projects) and the \$31,240,000 City of San Diego/MTDB Authority 1989 Lease Revenue Bonds (San Diego Bayside Light Rail Transit Extension).

Refunded Obligations

The term "Refunded Obligations" means, collectively, the 1986 Refunded Obligations and the 1989 Refunded Obligations.

Reserve Requirement

The term "Reserve Requirement" means an amount to be funded from lawfully available moneys of the City, including certain amounts described in the Indenture, in order that, (i) commencing on the Closing Date, the aggregate amount therein is equal to \$1,756,816.94, (ii) commencing September 1, 1994, the aggregate amount therein is equal to \$7,866,816.94, and (iii) commencing June 1, 1999, the aggregate amount therein is equal to Maximum Annual Debt Service.

Revenues

The term "Revenues" means all Base Rental Payments made pursuant to the Amended Leases, and all other benefits, charges, income, proceeds, profits, receipts, rents and revenues derived by the Authority from the ownership, operation or use of the Leased Property, including interest or profits from the investment of money in any fund, account or subaccount (other than the Rebate Fund) pursuant to the Indenture.

Securities Depositories

The term "Securities Depositories" means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax-(215) 496-5058; or to such other addresses and/or such other securities depositories as the Authority may designate in writing to the Trustee.

Supplemental Indenture

The term "Supplemental Indenture" means any indenture then in full force and effect which has been duly executed and delivered by the Authority and the Trustee amendatory hereof or supplemental to the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

Tax Certificate

The term "Tax Certificate" means the Tax Certificate and Agreement delivered by the Authority and the City at the time of the issuance and delivery of a series of Bonds, as the same may be amended or supplemented in accordance with its terms.

Written Request of the Authority

The term "Written Request of the Authority" means an instrument in writing signed by the President, the Vice President, the Secretary and the Assistant Secretary of the Authority, or by any other officer of the Authority duly authorized by the Authority for that purpose.

Written Request of the City

The term "Written Request of the City" means an instrument in writing signed by the City Manager of the City, or by any other officer of the City duly authorized by the City for that purpose.

THE INDENTURE

Equal Security

In consideration of the acceptance of the Bonds by the Owners thereof, the Indenture shall be deemed to be and shall constitute a contract between the Authority and the Trustee for the benefit of the Owners from time to time of all Bonds authorized, issued, executed and delivered under the Indenture and then Outstanding to secure the full and final payment of the interest on and principal of and redemption premiums, if

any, with respect to all Bonds which may from time to time be authorized, issued, executed and delivered under the Indenture, subject to the agreements, conditions, covenants and provisions contained in the Indenture; and all agreements and covenants set forth in the Indenture to be performed by or on behalf of the Authority shall be for the equal and proportionate benefit, protection and security of all Owners of the Bonds without distinction, preference or priority as to security or otherwise of any Bonds over any other Bonds by reason of the number or date thereof or the time of authorization, sale, issuance, execution or delivery thereof or for any cause whatsoever, except as expressly provided in the Indenture.

Conditions for the Issuance of Additional Bonds

The Authority may at any time issue Additional Bonds payable from the Revenues as provided in the Indenture and secured by a pledge of the Revenues as provided in the Indenture equal to the pledge securing the Outstanding Bonds theretofore issued under the Indenture, but only subject to the following specific conditions, which are made conditions precedent to the issuance of any such Additional Bonds:

(a) The Authority shall be in compliance with all agreements and covenants contained in the Indenture.

(b) The issuance of such Additional Bonds shall have been authorized by the Authority and shall have been provided for by Supplemental Indenture which shall specify the following:

(1) The purpose for which such Additional Bonds are to be issued; provided that such Additional Bonds shall be applied solely for (i) the purpose of financing or refinancing additional real property and improvements to be encumbered by one or more of the Amended Leases, including payment of all costs incidental to or connected with such financing or refinancing, and/or (ii) the purpose of refunding any Bonds then Outstanding, including payment of all costs incidental to or connected with such refunding;

(2) The authorized principal amount and designation of such Additional Bonds;

(3) The dated date and the maturity dates of, and the sinking fund payment dates, if any, for such Additional Bonds; provided that (i) each maturity date shall fall upon September 1, (ii) all such Additional Bonds of like maturity shall be identical in all respects, except as to number and denomination, and (iii) serial maturities for Serial Bonds or sinking fund payments for Term Bonds, or any combination thereof, shall be established to provide for the retirement of such Additional Bonds on or before their respective maturity dates;

(4) The interest payment dates for such Additional Bonds, which shall be Interest Payment Dates;

(5) The redemption premiums, if any, and the redemption terms, if any, for such Additional Bonds;

(6) The amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Interest Account;

(7) The amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in an escrow fund or acquisition fund;

(8) The amount to be deposited from the proceeds of sale of such Additional Bonds in the Reserve Account, which amount shall be sufficient to cause the amount on deposit in the Reserve Account to equal the Reserve Requirement upon the issuance of such Additional Bonds;

(9) The forms of such Additional Bonds; and

(10) Such other provisions as are necessary or appropriate and not inconsistent with the Indenture.

- (c) One or more of the Amended Leases shall have been further amended so as to increase the aggregate Base Rental payable by the City thereunder the Indenture by an amount at least sufficient to pay the interest on and principal of such Additional Bonds as the same become due.
- (d) The Authority shall have received confirmation in writing from each of the rating agencies then providing a rating on any Outstanding Bonds that the issuance of such Additional Bonds will not, in and of itself, cause a downgrading or withdrawal of such rating.

Nothing contained in the Indenture shall limit the issuance of any lease revenue bonds of the Authority payable from the Revenues and secured by a pledge of the Revenues if after the issuance and delivery of such lease revenue bonds none of the Bonds theretofore issued under the Indenture will be Outstanding.

Pledge of Revenues

All Revenues and amounts on deposit in the funds, accounts and subaccounts established under the Indenture (other than amounts on deposit in the Rebate Fund are irrevocably pledged to the payment of the interest on and principal of the Bonds in the Indenture, and the Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues there may be allocated such sums for such purposes as are expressly permitted by the Indenture.

The Trustee shall be entitled to and shall receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as agent of the Trustee and shall forthwith be paid by the Authority to the Trustee.

Receipt and Deposit of Revenues in the Revenue Fund

In order to carry out and effectuate the pledge contained in the Indenture, the Authority agrees and covenants that all Revenues when and as received shall be received in trust under the Indenture for the benefit of the Owners and shall be deposited when and as received in the Revenue Fund. All Revenues shall be accounted for through and held in trust in the Revenue Fund, and the Authority shall have no beneficial right or interest in any of the Revenues except only as in the Indenture provided. All Revenues, whether received by the Authority in trust or deposited with the Trustee as in the Indenture provided, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses set forth in the Indenture, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority.

Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund

Subject to the Indenture, all money in the Revenue Fund shall be set aside by the Trustee in the following respective special accounts within the Revenue Fund each of which is created and each of which the Trustee covenants and agrees to maintain) in the following order of priority:

- (1) Interest Account,
- (2) Principal Account,

- (3) Reserve Account (including the 1986 Obligations Subaccount, the 1989 Obligations Subaccount and the 1994 Bonds Subaccount), and
- (4) Redemption Account.

All money in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes authorized in the Indenture.

Investment of Moneys in Funds and Accounts

Moneys in the Revenue Fund, the Costs of Issuance Fund and any accounts and subaccounts therein shall, upon the Written Request of the City or the Authority at least two Business Days before the investment, be invested by the Trustee in Permitted Investments. In the absence of a Written Request of the City or the Authority, the Trustee may invest moneys in such funds and accounts in Permitted Investments described in subparagraph (9) of the definition of Permitted Investments. The obligations in which moneys in the said funds, accounts and subaccounts are invested shall mature prior to the date on which such moneys are estimated to be required to be paid out under the Indenture. The obligations in which moneys in the Reserve Account are so invested shall be invested in obligations maturing no later than five years after the date of investment. Any interest, income or profits from the deposits or investments of all funds, accounts and subaccounts under the Indenture (except the Rebate Fund and the Reserve Account to the extent required to be maintained therein pursuant to the Indenture) shall be deposited in the Principal Account of the Revenue Fund. For purposes of determining the amount of deposit in any fund, account or subaccount held hereunder, all Permitted Investments credited to such fund or account shall be valued, on September 1 during each year that Bonds are Outstanding, at the cost thereof (excluding accrued interest and brokerage commissions, if any, and adjusting for any amortized premium or discount to maturity). Except as otherwise provided in the Indenture, Permitted Investments representing an investment of moneys attributable to any fund, account or subaccount and all investment profits or losses thereon shall be deemed at all times to be a part of said fund, account or subaccount. The Trustee may act as principal or agent in the acquisition or disposition of investments, and may commingle the funds, accounts and subaccounts established under the Indenture for investment purposes.

Certain Covenants of the Authority

Punctual Payment and Performance. The Authority will punctually pay the interest on and the principal of and redemption premiums, if any, to become due on every Bond issued under the Indenture in strict conformity with the terms of the Indenture and of the Bonds, and will faithfully observe and perform all the agreements and covenants contained in the Indenture and in the Bonds.

Against Encumbrances. The Authority will not make any pledge of or place any charge or lien upon the Revenues except as provided in the Indenture, and will not issue any bonds, notes or obligations payable from the Revenues or secured by a pledge of or charge or lien upon the Revenues except the Bonds.

Against Sale or Other Disposition of the Leased Property. Except as provided in the Amended Leases, the Authority will not sell or otherwise dispose of the Leased Property, enter into any agreement which impairs the use of the Leased Property or any part thereof necessary to secure adequate Revenues for the payment of the interest on and principal of and redemption premiums, if any, with respect to the Bonds, or which would otherwise impair the rights of the Owners with respect to the Revenues.

Tax Covenants; Rebate Fund. In addition to the other funds and accounts created pursuant to the Indenture, the Trustee shall establish and maintain a fund separate from any other fund or account established and maintained under the Indenture designated the Rebate Fund (the "Rebate Fund"). Within the Rebate Fund, the Trustee shall maintain such accounts or subaccounts as are specified in a Written Request of the City or the Authority to the Trustee pursuant to the Tax Certificate. The Trustee shall deposit moneys in the Rebate Fund pursuant to a Written Request of the City or the Authority. Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the federal government of the United States of America, and none of the City, the Authority, the Trustee or the Owner of any Bond shall have any right in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section and by the Tax Certificate. The Trustee shall be deemed conclusively to have complied with the provisions of the Indenture and the Tax Certificate if it follows the Written Request of the City or the Authority, including supplying all necessary information in the manner provided in the Tax Certificate, and except as otherwise expressly provided in the Indenture, shall not be required to take any actions under the Indenture in the absence of written directions by the City or the Authority, and shall have no liability or responsibility to enforce compliance by the City or the Authority with the terms of the Tax Certificate. The Trustee agrees to comply with all Written Requests of the City or the Authority given in accordance with the Tax Certificate.

Payment of Claims. The Authority will pay and discharge or cause to be paid and discharged any and all lawful claims for labor, materials or supplies which, if unpaid, might become a legal charge or lien upon the Leased Property or the Revenues or any part thereof or upon any funds under the control of the Authority or the Trustee superior to or on a parity with the charge and lien upon the Revenues securing the Bonds, or which might impair the security of the Bonds.

Payment of Taxes and Compliance with Governmental Regulations. The Authority will pay and discharge or cause to be paid and discharged all applicable taxes, assessments and other governmental charges that may be levied, assessed or charged upon the Leased Property or any part thereof or upon the Revenues or any part thereof promptly as and when the same shall become due and payable. The Authority will duly observe and conform with all valid applicable regulations and requirements of any governmental authority relative to the use of the Leased Property or any part thereof, but the Authority shall not be required to comply with any such regulations or requirements so long as the application or the validity thereof shall be contested in good faith.

Insurance. The Authority will maintain or cause to be maintained insurance with respect to the Leased Property as required by the Amended Leases.

Insurance Proceeds and Condemnation Awards. If (i) the Leased Property or any portion thereof is damaged or destroyed (in whole or in part) or (ii) the Leased Property or any portion thereof is stolen or otherwise unlawfully removed from the possession of the City, subject to the Amended Trust Agreements, the Authority will cause the Net Proceeds of any insurance claim to be applied to the prompt repair, restoration, modification, improvement or replacement of the damaged, destroyed or stolen portion of the Leased Property. Any balance of the Net Proceeds remaining after such work has been completed shall be applied as set forth in the Amended Trust Agreements.

Alternatively, but only if the Net Proceeds of such insurance award, together with any other moneys then available for the purpose, are at least sufficient to prepay that portion of the Base Rental attributable to the portion of the Leased Property so destroyed, damaged or stolen, the Authority at its option, subject to the Amended Trust Agreements, may elect not to repair, reconstruct or replace the damaged, destroyed or stolen portion of the Leased Property and thereupon shall cause said proceeds to be used for the redemption of Outstanding Bonds, and the redemption or prepayment of outstanding Prior Obligations in accordance with the Amended Trust Agreements.

If the whole of the Leased Property or so much thereof as to render the remainder unusable for the purposes for which it was used or intended to be used by the City shall be taken under the power of eminent domain, the term of either of the Amended Leases shall cease as of the day that title to the Leased Property is exchanged and the right to receive lease payments under such Amended Lease ceases. The Authority shall take or cause to be taken such action as is reasonably necessary to obtain compensation at least equal to the value of the Leased Property or portion thereof taken by eminent domain. If less than the whole of the Leased Property shall be taken under the power of eminent domain and the remainder is usable for the purposes for which it was used by the City at the time of such taking, then the Amended Leases shall continue in full force and effect as to such remainder, and the parties thereto waive the benefits of any law to the contrary, and in such event the Base Rental Payments due thereunder will be reduced by the application of all or any part of any award in eminent domain to the redemption of Outstanding Bonds pursuant to the Indenture. So long as any of the Bonds shall be Outstanding, and subject to the Amended Trust Agreements, the Net Proceeds of any award made in eminent domain proceedings for taking the Leased Property or any portion thereof shall be applied to the redemption of Bonds as provided in the Indenture and to the redemption or prepayment of Prior Obligations in accordance with the Amended Trust Agreements. Any such award made after all of the Bonds and Prior Obligations have been fully paid and retired shall be paid to the City.

The Authority shall cause the City to, within 15 days of the receipt of any Net Proceeds, instruct the Trustee, through a Written Request of the City, as to what portion, if any, of such proceeds is to be used to redeem Bonds pursuant to the Indenture and the date of any such redemption.

Amended Leases and Other Documents. Subject to the Amended Trust Agreements, the Authority will at all times maintain and vigorously enforce all of its rights under the Amended Leases, and will promptly collect all rents and charges due for the use of the Leased Property as the same become due under the Amended Leases, and will promptly and vigorously enforce its rights against any tenant or other person who does not pay such rents or charges as they become due under the Amended Leases. The Authority will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation, abatement or termination of the Amended Leases by the respective lessees thereunder.

Other Liens. The Authority will keep the Leased Property free from judgments, mechanics' and materialmen's liens (except those arising from the acquisition, construction and installation of the Leased Property) and free from all liens, claims, demands and encumbrances of whatsoever prior nature or character to the end that the security for the Bonds provided in the Indenture will at all times be maintained and preserved free from any claim or liability which, in the judgment of the Trustee (and its determination thereof shall be final), might hamper the Authority in conducting its business or interfere with the City's use and occupancy of the Leased Property, and the Trustee at its option (after first giving the Authority ten days' written notice to comply therewith and failure of the Authority to so comply within such period) may defend against any and all actions or proceedings in which the validity of the Indenture is or might be questioned, or may pay or compromise any claim or demand asserted in any such action or proceeding; provided, however, that in defending such actions or proceedings or in paying or compromising such claims or demands the Trustee shall not in any event be deemed to have waived or released the Authority from liability for or on account of any of its agreements and covenants in the Indenture, or from its liability under the Indenture to defend the validity of the Indenture and the pledge of the Revenue and to perform such agreements and covenants.

Prosecution and Defense of Suits. The Authority will promptly from time to time take or cause to be taken such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Leased Property, whether now existing or hereafter developing, and shall prosecute or cause to be prosecuted all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and hold the Trustee harmless from all loss, cost, damage and expense, including attorney's fees, which it may incur by reason of any such defect, cloud, suit, action or proceeding.

The Authority will defend against every suit, action or proceeding except those arising out of the wrongful, willful act or actions of the Trustee at any time brought against the Trustee upon any claim arising out of the receipt, application or disbursement of any of the Revenues or involving the rights of the Trustee under the Indenture; provided that the Trustee at its election may appear in and defend any such suit, action or proceeding.

Further Assurances. Whenever and so often as requested to do so by the Trustee, the Authority will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Owners all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon the.

Duties, Immunities and Liabilities of Trustee

The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied duties or obligations shall be read into the Indenture against the Trustee. The Trustee shall file such financing statements as may be necessary in order to continue, preserve and protect the Trustee's rights under the Amended Leases assigned to the Trustee by the Authority. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

So long as no Event of Default has occurred and is continuing, the Authority may remove the Trustee at any time and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with the Indenture, or shall become incapable of acting, or shall commence a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take control or charge of the Trustee or its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

The Trustee may resign by giving written notice of such resignation to the Authority and by giving notice of such resignation by mail, first class postage prepaid, to the Owners at the addresses listed in the bond register. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and shall have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, at the expense of the Authority, or any Owner (on behalf of himself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless, at the written request of the Authority or of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer,

assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Indenture set forth.

Any Trustee appointed under the provisions of the Indenture shall be a trust company or bank having the powers of a trust company, having a corporate trust office in California, having a combined capital and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In addition, the Trustee at all times shall also act as trustee under the Amended Trust Agreements. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of the Indenture, the Trustee shall resign immediately in the manner and with the effect specified.

Amendment of the Indenture

The Indenture and the rights and obligations of the Authority and of the Owners may be amended at any time by a Supplemental Indenture which shall become binding when the written consents of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on or otherwise alter or impair the obligation of the Authority to pay the interest on or principal of or redemption premium, if any, on any Bond at the time and place and at the rate and in the currency provided in the Indenture without the express written consent of the Owner of such Bond, (2) permit the creation by the Authority of any pledge of the Revenues as provided in the Indenture superior to or on a parity with the pledge created for the benefit of the Bonds, or (3) modify any rights or obligations of the Trustee without its prior written assent thereto.

The Indenture and the rights and obligations of the Authority and of the Owners may also be amended at any time by a Supplemental Indenture which shall become binding upon adoption without the consent of any Owners, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel and only for any one or more of the following purposes –

- (a) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture or in regard to questions arising under the Indenture which the Authority may deem desirable or necessary and not inconsistent and which shall not materially adversely affect the interests of the Owners; or
- (b) to make any other change or addition to the Indenture which shall not materially adversely affect the interests of the Owners, or to surrender any right or power reserved in the Indenture to or conferred in the Indenture on the Authority;
- (c) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in the Indenture.

The provisions of the Indenture shall not prevent any Owner from accepting any amendment as to the particular Bonds owned by him, provided that due notation thereof is made on such Bonds.

Events of Default

Any one or more of the following events shall be called an Event of Default under the Indenture:

- (a) default shall be made in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;
- (b) default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;
- (c) default shall be made by the Authority in the performance of any of the other agreements or covenants required in the Indenture to be performed by the Authority, and such default shall have continued for a period of 60 days after the Authority shall have been given notice in writing of such default by the Trustee; or
- (d) the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property.

Proceedings by Trustee

Upon the happening and continuance of any Event of Default the Trustee in its discretion may, and at the written request of the Owners of not less than 25 % in aggregate principal amount of Bonds Outstanding shall, do the following, subject to the provisions of the Amended Trust Agreements:

- (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require the Authority to enforce all rights of the Owners of Bonds, including the right to require the Authority to receive and collect Revenues and to enforce its rights under the Amended Leases and to require the Authority to carry out any other covenant or agreement with Owners of Bonds and to perform its duties under the Indenture;
- (b) bring suit upon the Bonds;
- (c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners; and
- (d) as a matter of right, have a receiver or receivers appointed for the Revenues and the issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

Notwithstanding the foregoing, neither the Indenture nor the Bonds provide for the remedy of acceleration of principal or interest due with respect to the Bonds prior to their stated due dates.

Effect of Discontinuance or Abandonment

In case any proceeding taken by the Trustee on account of any default shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee and the Owners shall be restored to their former positions and rights

under the Indenture, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

Rights of Owners

Anything in the Indenture to the contrary notwithstanding, subject to the limitations and restrictions as to the rights of the Owners in the Amended Trust Agreements and in other sections of the Indenture, upon the happening and continuance of any Event of Default, the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall have the right upon providing the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

The Trustee may refuse to follow any direction that conflicts with law, the Amended Trust Agreements or the Indenture or that the Trustee determines is prejudicial to rights of other Owners or would subject the Trustee to personal liability.

Restriction on Owners' Action

In addition to the other restrictions on the rights of Owners to request action upon the occurrence of an Event of Default and to enforce remedies set forth in the Indenture, no Owner of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the Indenture, or any other remedy under the Indenture or on said Bonds, unless such Owner previously shall have given to the Trustee written notice of an Event of Default as provided in the Indenture and unless the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall have made written request of the Trustee to institute any such suit, action, proceeding or other remedy, after the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Indenture granted, or to institute such action, suit or proceeding in its or their name; nor unless there also shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Indenture or for any other remedy under the Indenture; it being understood and intended that no one or more Owners of the Bonds secured by the Indenture shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner in the Indenture provided, and for the equal benefit of all Owners of Outstanding Bonds; subject, however, to the provisions of the Indenture and the Amended Trust Agreements.

Remedies Not Exclusive

No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

Waiver of Events of Default; Effect of Waiver

The Trustee shall waive any Event of Default under the Indenture and its consequences upon the written request of the Owners of at least a majority in aggregate principal amount of all Outstanding Bonds.

If any Event of Default shall have been waived as in the Indenture, the Trustee shall promptly give written notice of such waiver to the Authority and shall give notice thereof by first class mail, postage prepaid to all Owners of Outstanding Bonds if such Owners had previously been given notices of such Event of Default; but no such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default, or impair any right or remedy consequent thereon.

No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default, or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee and to the Owners of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Application of Moneys

Any moneys received by the Trustee pursuant to the Indenture pursuant to the exercise of remedies thereunder, together with any moneys which upon the occurrence of an Event of Default are held by the Trustee in any of the funds and accounts under the Indenture (other than the Rebate Fund and other than moneys held for Bonds not presented for payment) shall, after payment of all fees and expenses of the Trustee, and the fees and expenses of its counsel, be applied as follows, subject to the terms of the Amended Trust Agreements:

- (a) unless the principal of all of the Outstanding Bonds shall be due and payable,

FIRST - To the payment of the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege;

SECOND - To the payment of the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Bonds which shall have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal of and premium, if any, on such Bonds due on any particular date, then to the payment ratably, according to the amount due on such date, to the persons entitled thereto without any discrimination or privilege; and

THIRD - To be held for the payment to the persons entitled thereto as the same shall become due of the principal of, interest, and premium, if any, on the Bonds, which may thereafter become due either at maturity or upon call for redemption prior to maturity and, if the amount available shall not be sufficient to pay in full such principal and premium, if any, due on any particular date, together with interest then due and owing thereon, payment shall be made in accordance with the FIRST and SECOND paragraphs above.

- (b) if the principal of all of the Outstanding Bonds shall be due and payable, to the payment of the principal, premium, if any, and interest then due and unpaid upon the Outstanding Bonds without preference or priority of any of principal, premium or interest over the others or of any installment of interest, or of any Outstanding Bond over any other Outstanding Bond, ratably, according to the amounts due respectively for principal, premium, and interest, to the persons entitled thereto without any discrimination or

preference except as to any difference in the respective amounts of interest specified in the Outstanding Bonds.

Whenever moneys are to be applied pursuant to the above, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The Trustee shall give, by mailing by first class mail as it may deem appropriate, such notice of the deposit with it of any such moneys.

Discharge of Bonds

If the Authority shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the interest thereon and the principal thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated in the Indenture and therein, then the Owners of such Bonds shall cease to be entitled to the pledge of the Revenues as provided in the Indenture, and all agreements, covenants and other obligations of the Authority to the Owners of such Bonds under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the Authority all money or securities held by it pursuant to the Indenture which are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds.

Subject to the provisions of the Indenture, when any of the Bonds shall have been paid and if, at the time of such payment, the Authority shall have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Authority or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, tender and exchange provisions, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, remain in effect and shall be binding upon the Trustee and the Owners of the Bonds and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of, redemption premium, if any, and interest on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture contained therein relating to the tax-exempt status of interest on the Bonds and relating to the compensation of the Trustee shall remain in effect and shall be binding upon the Trustee and the Authority.

Defeasance of Bonds

Any Outstanding Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the provisions of the Indenture regarding discharge of Bonds in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture, (2) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient or (B) Permitted Investments of the type described in clause (1) of such definition which are not subject to redemption prior to maturity except by

the holder thereof (including any such Permitted Investments issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or tax-exempt securities rated AAA or its equivalent by a nationally recognized rating agency, including Standard & Poor's Corporation and Moody's Investors Service if each is then rating the Bonds, the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall, as verified by an independent Certified Public Accountant or other independent financial consultant acceptable to the Trustee, be sufficient to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, with respect to such Bonds, and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owners of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Bonds.

Unclaimed Money

Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Bonds which remains unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for redemption prior to maturity, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee shall at the Written Request of the Authority be repaid by the Trustee to the Authority as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Authority for the payment of such Bonds; provided, however, that before being required to make any such payment to the Authority, the Trustee shall, at the expense of the Authority, cause to be published once a week for two successive weeks in a Financial Newspaper, a notice that such money remains unclaimed and that, after a date named in such notice, which date shall not be less than 30 days after the date of the first publication of each such notice, the balance of such money then unclaimed will be returned to the Authority.

DEFINITIONS RELATING TO THE 1986 OBLIGATIONS

The term "Assignment Agreement" means that certain Assignment Agreement of Leases and of Site Lease dated as of May 1, 1986 by and between Rauscher Pierce Refsnes Leasing, Inc. ("Rauscher") and Bank of America National Trust and Savings Association, as amended by the First Amendment to Assignment Agreement dated as of April 1, 1994 by and among the Corporation, as successor in interest to Rauscher, the Trustee and the Refunding Bonds Trustee.

The term "Corporation" means the City of San Diego/MTDB Authority, a joint powers agency created by the City and the San Diego Metropolitan Transit Development Board pursuant to California Government Code Sections 6500 et seq.

The term "First Supplemental Trust Agreement" means this First Supplemental Trust Agreement dated as of April 1, 1994 by and among First Interstate Bank of California, as successor trustee to Bank of America National Trust and Savings Association, the Corporation, as successor in interest to Rauscher, and the City.

The term "Lease Agreement" means that certain Lease Agreement dated as of May 1, 1986 by and between the City and Rauscher, as amended by the First Amendment to Lease Agreement dated as of April 1, 1994 by and between the City and the Corporation, as successor in interest to Rauscher.

The term "Lease Payments" means, collectively, Old Lease Payments and New Lease Payments.

The term "New Lease Payments" means the Lease Payments described as such in the Lease Agreement, payable on each Lease Payment Date to the Refunding Bonds Trustee, as assignee of the Corporation.

The term "Old Lease Payments" means the Lease Payments described as such in the Lease Agreement, payable on each Lease Payment Date to the Trustee or its assignee as described therein.

The term "Redemption Account of the Revenue Fund" means the account by that name established and maintained pursuant to the Refunding Bonds Indenture.

The term "Refunding Bonds" means the City of San Diego/MTDB Authority Lease Revenue Bonds (1994 Refundings).

The term "Refunding Bonds Indenture" means the Indenture dated as of April 1, 1994 by and between the City of San Diego/MTDB Authority and the Refunding Bonds Trustee, as amended.

The term "Refunding Bonds Trustee" means First Interstate Bank of California, as trustee for the Refunding Bonds, and any successor.

The term "Revenue Fund" means the fund by that name established and maintained pursuant to the Refunding Bonds Indenture.

The term "Trust Agreement" means that certain Trust Agreement dated as of May 1, 1986 by and among Rauscher, the City and Bank of America National Trust and Savings Association, as trustee, as amended and supplemented by the First Supplemental Trust Agreement.

THE LEASE AGREEMENT (1986 OBLIGATIONS)

The City and Rauscher entered into the Lease Agreement to provide for the lease of the Projects. The City Council approved the Lease Agreement through an ordinance adopted by the City Council of the City on June 2, 1986. The City of San Diego/MTDB Authority succeeded to the interests of Rauscher by resolution of the City Council of the City and certain instruments executed in connection therewith in May 1988.

The term of the Lease Agreement commences on the date of recordation of the Lease Agreement in the office of the San Diego County Recorder and ends on September 1, 2005 (provided, however, that if on such date any Lease Payments remain unpaid, the Lease Agreement shall remain in full force and effect until all Lease Payments are paid in full) or such earlier time as (i) the Corporation shall terminate the Lease Agreement following default by the City under the Lease Agreement, (ii) the City shall pay all Lease Payments due during the term of the Lease Agreement or shall exercise its option to purchase the Projects, whereupon title to the Projects shall pass to the City pursuant to the Lease Agreement or (iii) the whole of the Projects shall be taken through the power of eminent domain.

Lease Payments; Abatement

The City has agreed to pay the Lease Payments to the Corporation, three business days before each Payment Date, as rental for the use and possession of each of the Projects. Each Lease Payment and principal and interest component thereof shall represent payments with respect to each Project as follows: 6 percent thereof shall represent payments for the use and occupancy of the Southeastern Division Police Station Project; 7 percent shall represent payments for the use and occupancy of the Western Division Police Station Project; 79 percent shall represent payments for the use and occupancy of the Police Administration and Technical Center Project; and 8 percent shall represent payments for the use and occupancy of the Heavy Vehicle Maintenance Facility Project. Any amounts on deposit in the Lease Payment Fund on each lease payment date will be credited to the Lease Payment then due. The City has agreed to budget and appropriate the Lease Payments for the Projects in each year during the term of the Lease Agreement and to provide the Trustee with a certificate of the City Manager that such appropriation has been included in its final budget within twenty days after the adoption of such budget.

The Lease Payments for the Projects shall be abated during any period in which, due to damage or destruction, there is a substantial interference with the City's use and possession of any of the Projects. Such abatement shall be in proportion to the portions of the Project or Projects so damaged or destroyed. The City has agreed to procure rental interruption insurance to cover such abatement resulting from hazards covered by the fire and extended coverage insurance policy described below, in an amount sufficient to pay Lease Payments for a period of twelve months. See "Insurance" below.

City's Budget

The City covenants to include all Lease Payments and other payments due under the terms of the Lease Agreement during any fiscal year in its budget for such year, and further covenants to make the necessary appropriations therefor. The Lease Agreement provides that the several actions required by such covenants shall be construed to be ministerial duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

Title

Throughout the term of the Lease Agreement, title to the Projects, and each and every portion thereof, shall remain vested in the Authority, subject to Permitted Encumbrances. Permitted Encumbrances are defined to include liens for taxes and assessments not then delinquent; easements, rights of way and other rights, covenants, conditions or restrictions which do not impair or impede construction or use of the Projects; and the Assignment Agreement and the Lease Agreement. Upon expiration of the term of the Lease Agreement, title to the Projects shall automatically vest in the City.

Maintenance, Utilities, Taxes and Modifications

The City, at its own expense, has agreed to maintain the Projects in good repair, promptly and efficiently so that the Projects will at all times remain free from neglect, damage or destruction. The Authority has no responsibility for such repair. The City has the power to make modifications and additions to the Projects which do not damage or substantially alter the nature of the Projects or reduce the value of the Projects to a value substantially less than that which existed prior to such modification or improvement. Any such modifications or improvements to the Projects will automatically become subject to the Lease Agreement. The City must pay or cause to be paid all taxes, other governmental charges and assessments with respect to the Projects, including property taxes but excluding income, profit or estate taxes payable by the Authority or Trustee unless such property taxes are being contested by the City as provided in the Lease Agreement. With the City's consent to the assignment of the Lease Agreement to the Authority, the property tax liability of the City has been minimized or eliminated.

Assignment of Warranties

Pursuant to the Lease Agreement, the Corporation assigns to the City all warranties with respect to the Projects.

Insurance

Certain of the provisions below are clarified further by the First Amendment to Lease Agreement.

The Lease Agreement requires the City to maintain or cause to be maintained the following insurance against risk of physical damage to Project structures and other risks for the protection of the owners of obligations payable from Lease Payments, the Corporation and the Trustee:

(1) **Public Liability and Property Damage.** Minimum coverages shall be \$1,000,000 for personal injury or death of two or more person per accident or person and \$3,000,000 for personal injury or death per event (subject to a deductible clause of not to exceed \$250,000) and property damage insurance in a minimum amount of \$150,000 per accident or event. Such insurance shall be obtained by the City upon taking possession of the Projects and maintained thereafter for the remainder of the term of the Lease Agreement, and may be carried in conjunction with any other liability insurance coverage carried by the City and may be maintained in whole or in part in the form of self-insurance by the City.

(2) **Fire and Extended Coverage.** Coverage shall include loss or damage to any part of the Projects by fire and lightning, with extended coverage of loss or damage by vandalism, malicious mischief, explosion, wind storm, riot, aircraft, vehicle damage, smoke and other hazards normally covered. Coverage shall be equal to the greater of 100% of replacement cost of the Projects or the principal amount of the outstanding 1986 Obligations and a corresponding portion of Refunding Bonds. Such insurance may be subject to a

deductible clause of not to exceed \$250,000 for any one loss. Such insurance shall be maintained throughout the term of the Lease Agreement, except that during construction of the Police Administration and Technical Center Project the City shall procure and maintain such insurance only if such insurance is not provided by the Contractor, and may be carried in conjunction with any other fire and extended coverage insurance carried or required to be carried by the City and may be maintained in whole or in part in the form of self-insurance by the City.

(3) Earthquake Insurance. Earthquake insurance shall be maintained only if commercially available. In the event such earthquake insurance shall at any time during the term of the Lease Agreement not be commercially available, the City shall not be obligated to maintain earthquake insurance during such period, provided, however, that in the event of an uninsured loss to a Project caused by earthquake the City shall apply for and use its best efforts to obtain financial assistance from the United States of America to be used for the repair, reconstruction or replacement of such Project and in the event the City does not maintain earthquake insurance the City shall maintain rental interruption insurance in an additional amount equal to the maximum Lease Payments payable in a twelve month period.

(4) Rental Interruption Insurance. Coverage shall be in an amount sufficient to make Lease Payments for a period of at least twelve months during which the use of the Projects is interrupted as a result of any of the hazards covered by the fire and extended coverage insurance. See "Fire and Extended Coverage" above. Such insurance shall be maintained throughout the term of the Lease Agreement. The City may self-insure for rental interruption insurance but only by segregating reserves in a specified account equal to the insurance amount required.

(5) Title Insurance. The Corporation will obtain a policy of title insurance which shall insure the Corporation's fee title to the Projects, including the sites on which the Heavy Vehicle Maintenance Facility Project and the Police Administration and Technical Center Project are located, and the City's title in the leasehold estate in the Projects and the sites on which Southeastern Division Police Station Project and the Western Division Police Station Project are located, subject only to such exceptions as are acceptable to the City.

All policies of insurance except the policy of public liability and property damage insurance must provide that the net proceeds thereof paid with respect to the Projects, remaining after payment of all expenses incurred in the collection of such proceeds (the "Net Proceeds"), shall be payable to the Trustee. The Net Proceeds of insurance shall be deposited in the Insurance and Condemnation Fund under the Trust Agreement to be applied to rebuild the Projects or redeem outstanding 1986 Obligations and a corresponding portion of Refunding Bonds. The City has agreed to pay, or cause to be paid, when due the premiums on all insurance policies and to furnish evidence of such payments promptly to the Trustee.

Damage or Destruction of the Projects

In the event of damage or destruction of any of the Projects, the City, at its option, may (i) provided that the City reasonably determines that the Project may be repaired or rebuilt during the period for which Net Proceeds of rental interruption insurance are available, rebuild and repair the Project, (ii) use any insurance proceeds to redeem 1986 Obligations and a corresponding portion of Refunding Bonds, whereupon remaining Lease Payments shall be abated proportionally or (iii) terminate the Lease Agreement and use any insurance proceeds to redeem in whole the outstanding 1986 Obligations and a corresponding portion of Refunding Bonds. However, in the event that insurance proceeds are insufficient to repair the Project or to prepay Lease Payments or redeem in full the outstanding 1986 Obligations and a corresponding portion of Refunding Bonds and the City's Lease Payments are abated, there could be insufficient funds to make payments to the owners of 1986 Obligations and a corresponding portion of Refunding Bonds.

Eminent Domain

In the event of the exercise of eminent domain with respect to any of the Projects or any of the related sites, the City is required to deposit the Net Proceeds of any condemnation award in the Insurance and Condemnation Fund held by the Trustee under the Trust Agreement. Such proceeds shall be applied to prepayment of Lease Payments or redemption of outstanding 1986 Obligations and a corresponding portion of Refunding Bonds, pursuant to the Trust Agreement. However, if any of the Projects are condemned and the Net Proceeds of condemnation are insufficient to provide prepayment in full of the principal component of the unpaid Lease Payments allocated to such Project, there may be insufficient funds available under the Trust Agreement to redeem 1986 Obligations and a corresponding portion of Refunding Bonds at a redemption price of 100% of the principal amount thereof plus accrued interest to the date of redemption. In the event less than all of the Projects or sites shall be condemned, the Lease Agreement shall continue in full force and effect and the Lease Payments shall be abated in proportion to the unusable portion of the Projects resulting from such condemnation; however, if the Net Proceeds of such condemnation are insufficient to compensate for the portion of Lease Payments so abated, there may be insufficient funds available under the Trust Agreement to pay the 1986 Obligations and a corresponding portion of Refunding Bonds in full. Pursuant to the Lease Agreement, the City has covenanted (i) to contest any condemnation award which is insufficient to retire at face value the principal amount of 1986 Obligations and a corresponding portion of Refunding Bonds attributable to the condemned portion of any Project and (ii) if the City exercises its right of eminent domain with respect to any Project, resulting in mandatory redemption of 1986 Obligations and a corresponding portion of Refunding Bonds, to award an amount sufficient to redeem outstanding 1986 Obligations and a corresponding portion of Refunding Bonds in whole at the applicable redemption price, plus accrued interest to the date of redemption.

Assignment; Subleases

The Corporation has assigned certain of its rights under the Lease Agreement, including the rights to receive and enforce payment of the Lease Payments, to the Trustee pursuant to the Assignment Agreement. The City may not assign its interest under the Lease Agreement. However, the City may sublease any of the Projects in whole or in part under the conditions contained in the Lease Agreement, including the conditions that the City shall remain primarily liable under the Lease Agreement and that such sublease shall not cause the interest component of the Lease Payments to be subject to federal or California state income taxes.

Events of Default

The following constitute "events of default" under the Lease Agreement:

- (a) Failure by the City to make any Lease Payment (other than Lease Payments or any portion thereof abated pursuant to the Lease Agreement) or other payment required under the Lease Agreement when due;
- (b) Failure by the City to comply with the provisions of the Lease Agreement or default in the performance or observance of any covenant, agreement or condition on its part contained herein, other than default described in (i) above, and the continuance of such failure for a period of thirty days after written notice hereof by the Trustee, the Corporation or the owners of not less than five percent in aggregate principal amount of 1986 Obligations then outstanding; provided, however, that if the failure cannot be corrected within that period of time, consent to an extension shall not be unreasonably withheld if the City institutes and diligently pursues corrective action;
or

- (c) Certain events relating to bankruptcy of the City or the inability of the City to pay its debts.

Upon the occurrence and continuance of any event of default described in (i) or (iii) above, the Trustee, as assignee of the Authority, shall, and upon the occurrence and continuance of an event of default described in (ii) above, the Trustee may, without terminating the Lease Agreement, proceed to (a) re-enter and take possession of the Projects and, if the Trustee deems it appropriate, exclude the City from using them until the default is cured, holding the City liable for the Lease Payments and other amounts payable by the City pursuant to the Lease Agreement; (b) re-enter and take possession of the Projects and lease the Projects to a third party for the account of the City, holding the City liable for the difference between the amount received under such lease and the Lease Payments payable by the City under the Lease Agreement; or (c) take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee of the Corporation and the owner of the Projects; provided there shall be no right to declare the Lease Payments not then in default to be immediately due and payable.

Option to Prepay; Option to Purchase

Under the Lease Agreement, the Corporation grants to the City options to prepay the principal component of Lease Payments in part or to purchase the Projects in whole or in part, on or after September 1, 1993 with respect to the 1986 Obligations, and on or after September 1, 2004 with respect to a corresponding portion of Refunding Bonds, but only if the City is not in default under subparagraphs (a) or (c) of the section entitled "Events of Default" above. The City may exercise its option to make such prepayments or purchase the Projects on sixty days' prior written notice to the Corporation and the Trustee by paying, at least three business days prior to any Payment Date on or after September 1, 1993 (with respect to the 1986 Obligations), or on or after September 1, 2004 (with respect to the related Refunding Bonds), the prepayment or purchase price therefor as set forth in the Lease Agreement of all the Projects. Such prepayment or purchase price shall be equal to the amount necessary to prepay in whole or in part the unpaid principal component of Lease Payments allocable to the Projects or portion thereof to be purchased and attributable to 1986 Obligations or a corresponding portion of Refunding Bonds in accordance with the Trust Agreement or the Refunding Bonds Indenture, as applicable, plus premium, if any.

In the event of such prepayment, the amount of Lease Payments to be paid by the City over the remaining term of the Lease Agreement shall be adjusted to effect such prepayment.

Any amount available in the Reserve Fund, Lease Payment Fund and Insurance and Condemnation Fund shall be applied toward payment of the purchase price of all the Projects. Such purchase price shall be deposited in the Lease Payment Fund to be applied to the redemption of the 1986 Obligations or a corresponding portion of Refunding Bonds.

Upon exercise of the City's option to purchase the Projects and the redemption of the 1986 Obligations and a corresponding portion of Refunding Bonds in whole, all right, title, and interest of the Corporation in the Projects shall be transferred to the City.

THE ASSIGNMENT AGREEMENT (1986 OBLIGATIONS)

Pursuant to the Assignment Agreement dated as of May 1, 1986 between Rauscher and the Trustee, Rauscher assigned to the Trustee for the benefit of the Owners of the 1986 Obligations (i) all its rights and interest in the Lease Agreement, including the right to receive Lease Payments payable by the City and to enforce payment of such Lease Payments when due or otherwise protect its interest in the event of a default by the City; and (ii) all its rights and interest under all bonds, insurance, indemnities, guarantees and warranties (to the extent not assigned to the City under the Lease Agreement) in connection with the construction, development and leasing of the Projects.

THE TRUST AGREEMENT (1986 OBLIGATIONS)

Trustee

The Trustee is appointed pursuant to the Trust Agreement to execute and deliver the 1986 Obligations and to act as a depository of amounts held thereunder. The Trustee is required to make deposits into and withdrawal from funds, and invest amounts held under the Trust Agreement in Permitted Investments (see "Investment of Funds" below) in accordance with the City's instructions. The Trustee will act in a ministerial and passive capacity, except to the extent that, in the event of a default in payment under the Lease Agreement, the Trustee shall exercise the rights of the Corporation with respect to default.

Creation of Funds and Disposition of Proceeds

The Trust Agreement creates the Lease Payment Fund, the Construction Fund, the Insurance and Condemnation Fund and the Reserve Fund, all to be held by the Trustee.

Lease Payment Fund. All Lease Payments received from the City shall be deposited in said fund. Moneys in the Lease Payment Fund will be applied to the payment of principal and interest with respect to the 1986 Obligations as each becomes due.

Insurance and Condemnation Fund. The Net Proceeds of insurance or condemnation award with respect to any Project shall be paid to the Trustee and deposited in the Insurance and Condemnation Fund. Such Net Proceeds shall be applied to the prompt replacement, repair, restoration, modification or improvement of the Projects or utilized to prepay Lease Payments and redeem 1986 Obligations (see "Insurance and Condemnation Awards" below). Any balance of Net Proceeds remaining after replacement, repair, restoration, modification, or improvement of the Project has been completed shall be deposited in the Lease Payment Fund and applied as a credit against the next subsequent Lease Payments.

Reserve Fund. An amount equal to \$6,110,000 (the "Reserve Requirement") has been deposited in the Reserve Fund and is used as a reserve for the payment of the outstanding 1986 Obligations in the event amounts in the Lease Payment Fund are insufficient therefor. In the event that the application of amounts in the Lease Payment Fund and the Reserve Fund shall be insufficient to pay amounts due on the outstanding 1986 Obligations, amounts in the Lease Payment Fund and the Reserve Fund are required to be applied, first to the payment of interest on the outstanding 1986 Obligations, pro rata if necessary, and then to the payment of unpaid principal, pro rata if necessary and the Trustee shall notify AMBAC (the "Insurer") of the remaining deficiency five days prior to the Payment Date. Upon receipt of any delinquent Lease Payment with respect to which moneys have been advanced from the Reserve Fund, such Lease Payment shall be deposited in the Reserve Fund to the extent of such advance. The Trustee is required to transfer at least semiannually any moneys in excess of the Reserve Requirement from the Reserve Fund to the Lease Payment Fund.

Investment of Funds

The Trustee is required to invest all moneys held under the Trust Agreement in Permitted Investments, as directed by the City and if the City shall fail to direct the Trustee, the Trustee shall invest such proceeds in Permitted Investments, which, in the judgment of the Trustee, are prudent investments and which yield the highest obtainable yield. Permitted Investments consist of (i) direct obligations (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America) of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America; (ii) bonds, debentures or notes, or other evidences of indebtedness payable in cash issued by any one or a combination of any of the following federal agencies whose obligations represent full faith and credit of the United States of America: Export Import Bank of the United States, Federal Housing Administration, Maritime Administration, Public Housing Authority, or Government National Mortgage Association; (iv) certificates of deposit secured at all times by collateral security described in (i) and (ii) above, issued by commercial banks, savings and loans associations, and mutual savings banks; (v) the following investments fully insured by the Federal Deposit Insurance Corporation; (a) certificates of deposit, (b) savings accounts, (c) deposit accounts, or (d) depository receipts of banks, savings and loan associations, mutual savings banks; (vi) investment agreements approved by the Insurer; and (vii) money market funds rated in the highest category by Standard & Poor's Corporation and Moody's Investors Service.

Flow of Funds

Lease Payments will be made in two installments at least three business days prior to September 1 and March 1 of each year until September 1, 2005, or until provision for redeeming the 1986 Obligations has been made.

Pursuant to the terms of the Trust Agreement, all Lease Payments received by the Trustee, any proceeds from the lease of the Projects by the Trustee after a default by the City, and any other moneys required to be deposited pursuant to the Lease Agreement or Trust Agreement, shall be deposited in the Lease Payment Fund, except in those cases where such funds are required to be deposited in the Reserve Fund to remedy a deficiency therein resulting from a prior withdrawal to make payments with respect to the 1986 Obligations.

The Trustee shall promptly distribute on each March 1 and September 1, those funds on deposit in the Lease Payment Fund due to the owners of the 1986 Obligations. If on any such Payment Date the amount on hand in the Lease Payment Fund is insufficient to pay the interest or principal then due, the Trustee will transfer the necessary amount from the Reserve Fund, and in the event a deficiency still remains in the Lease Payment Fund, the Trustee shall apply moneys on hand in the Lease Payment Fund first to the payment of interest past due with respect to all 1986 Obligations, pro rata if necessary, and second to the payment of the unpaid principal balance with respect to each 1986 Obligation which is then past due, pro rata if necessary and shall notify the Insurer of the deficiency five days prior to the Payment Date.

Any surplus remaining in the Lease Payment Fund, after redemption and payment of all 1986 Obligations, including accrued interest (if any), and payment of any applicable fees to the Trustee, or provision for such redemption or payment having been made to the satisfaction of the Trustee, shall then be remitted to the City.

Insurance and Condemnation Awards

Pursuant to the Lease Agreement, the Corporation has provided a title insurance policy with respect to each Project payable to the Trustee in an amount at least equal to the aggregate principal amount of the 1986 Obligations allocated to such Project. The Trustee is required to deposit in the Insurance and Condemnation Fund all proceeds derived from the policy of title insurance. The Net Proceeds of such insurance are to be used as follows: (a) if the Trustee determines that the title defect has not materially affected the operation of any Project or the City's obligations under the Lease Agreement, the proceeds shall be transferred to the Lease Payment Fund as a credit against the next Lease Payment; or (b) if any Project is affected by such title defect and the Trustee determines that such title defect has materially affected the operation of any Project or the City's ability to meet its obligations under the Lease Agreement, the proceeds shall be transferred to the Lease Payment Fund to be used to redeem the allocable proportion of 1986 Obligations with respect to such Project; or (c) if a portion of a Project is affected by such title defect, the Net Proceeds shall be transferred to the Lease Payment Fund to be used to redeem 1986 Obligations allocated to such Project in part and the remaining Lease Payments shall be abated in proportion to the portion of the Projects affected by such defect.

The Trustee is also required to deposit any Net Proceeds of insurance from the destruction of any Projects into the Insurance and Condemnation Fund to be used to rebuild or repair the Project, unless otherwise requested by the City, or to redeem outstanding 1986 Obligations allocated to such Project in whole or in part.

If any Project shall be taken by eminent domain proceedings, the Net Proceeds therefrom shall be deposited in the Insurance and Condemnation Fund and disbursed to the Lease Payment Fund to be used as follows: (a) if the Trustee determines that such proceedings have materially affected the use of the Project, to prepay Lease Payments and redeem 1986 Obligations allocated to such Project; or (b) if a portion of the Project has been taken, to redeem 1986 Obligations allocated to such Project, in part, whereupon the remaining Lease Payments allocated to such Project shall be abated in proportion to the unusable portion of the Project resulting from such taking.

The Trustee may obtain, at the City's expense, the report of an independent engineer or other independent consultant in order to make any determination with respect to the application of such Net Proceeds.

Events of Default

Upon (i) the occurrence of an event of default by the City under the Lease Agreement, or (ii) failure by the City or the Corporation to comply with the provisions of the Trust Agreement or default in the performance or observance of any other covenants, agreements or conditions on its part contained therein, and the continuance of such default for a period of thirty days after written notice thereof has been given to the defaulting party and/or the Trustee by the Trustee, the Corporation or the owners of not less than five percent in aggregate principal amount of 1986 Obligations then outstanding, the Trustee may take all actions necessary to eliminate such default, to recover damages therefor, and to deposit any moneys received from the City into the Lease Payment Fund. In the event the Trustee fails to take sufficient actions to eliminate such default, the owners of a majority in aggregate principal amount of 1986 Obligations then outstanding may institute any suit, action, mandamus or other proceeding in equity or at law for the protection or enforcement of any right under the Lease Agreement or Trust Agreement, if and only if such owners have first made written request of the Trustee after the right to exercise such powers or right of action shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers therein granted or granted under the law or in equity or to institute such action, suit or proceeding in its name, and in addition, unless the Trustee shall have been offered reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Neither the Lease Agreement nor the Trust Agreement contains an express remedy upon default of acceleration of Lease Payments.

Amendment

The Trust Agreement may be amended only by agreement in writing among the City, the Trustee and the Authority and in the written consents of the Insurer and of the owners of at least 60% of the aggregate principal amount of the 1986 Obligations then outstanding provided that no such amendment shall (1) extend or have the effect of extending the fixed maturity of any 1986 Obligations or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the redemption thereof, without the express consent of the owner of such 1986 Obligations, or (2) reduce or have the effect of reducing the percentage of 1986 Obligations required for the affirmative vote or written consent to an amendment or modification of the Lease Agreement, or (3) modify any of the rights or obligations of the Trustee without its written asset thereto. The Trust Agreement and Lease Agreement may be amended by agreement among the respective parties thereto, without the consent of the owners of 1986 Obligations, but only for the purpose of (i) adding to the covenants and agreements of any party, additional covenants, or to surrender any right or power therein reserved to the City, (ii) curing any ambiguity, correcting defects, or supplementing any ambiguous provision contained therein, (iii) in regard to questions arising under the Trust Agreement or Lease Agreement which shall not adversely affect owners of 1986 Obligations, (iv) to modify the legal description of the site to conform to requirements of title insurance, (v) or to add provisions for the execution, delivery, negotiability or exchange of bearer securities and coupons appertaining thereto, provided that any such amendment pursuant to (i) or (ii) above does not adversely affect the interests of the owners of the 1986 Obligations or the exemption from Federal income taxation of the interest component of Lease Payments.

Rights of Insurer

AMBAC Indemnity shall be deemed to be the holder of the 1986 Obligations insured by AMBAC Indemnity: (i) at all times for the purpose of the execution and delivery of a Supplemental Trust Agreement of any amendment, change or modification of the Trust Agreement and the Lease Agreement or the initiation by owners of 1986 Obligations of any action to be undertaken by the Trustee at the request of the holders of the 1986 Obligations, which under the Trust Agreement requires the written approval or consent of or can be initiated by the holders of a majority 60 percent in aggregate principal amount of the 1986 Obligations at the time outstanding and (ii) following an Event of Default for all other purposes.

Defeasance

Upon payment of all outstanding 1986 Obligations, either at or before maturity, or upon the deposit with the Trustee of money or Permitted Investments sufficient with other available funds to retire the 1986 Obligations at or before maturity, upon giving or providing for the required notice to such effect, all obligations of the Corporation, the Trustee and the City under the Trust Agreement with respect to all outstanding 1986 Obligations shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid amounts due to owners of 1986 Obligations not surrendered and paid.

In the event that the principal and redemption price, if applicable, and interest due on the 1986 Obligations shall be paid by AMBAC Indemnity pursuant to the Insurance Policy, the assignment and pledge of the Revenues and all covenants, agreements and other obligations of the City to the holders of the 1986 Obligations shall continue to exist and AMBAC Indemnity shall be subrogated to the rights of such holders.

THE FIRST AMENDMENT TO LEASE AGREEMENT (1986 OBLIGATIONS)

Assignment

The City understands and agrees that all New Lease Payments have been assigned to the Refunding Bonds Trustee for the benefit of the holders of the related Refunding Bonds, in each case in trust, pursuant to the Assignment Agreement, as amended, and the City consents to such assignment. The Corporation directs the City, and the City agrees, to pay the Trustee at its Principal Corporate Trust Office and the Refunding Bonds Trustee at such address provided in writing by the Refunding Bonds Trustee to the City, all payments payable by the City to such parties pursuant to the Lease Agreement and all amounts payable by the City to such parties pursuant to the Lease Agreement.

The Corporation's rights under the Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the City under the Lease Agreement, have been assigned to the Trustee and the Refunding Bonds Trustee pursuant to the Assignment Agreement, to which assignment the City consents.

Eminent Domain; Defects in Title

The City covenants to contest any condemnation award which is insufficient to retire at face value the principal amount of 1986 Obligations and Refunding Bonds attributable to the portion of the Project taken under the power of eminent domain. In addition, the City covenants that if the City ever exercises its right of eminent domain with respect to any Project or Site which results in prepayment of 1986 Obligations pursuant to the Trust Agreement or the redemption of a corresponding portion of Refunding Bonds pursuant to the Refunding Bonds Indenture, the award resulting from such exercise of eminent domain will be sufficient to redeem all 1986 Obligations and a corresponding portion of Refunding Bonds then outstanding attributable to such Project and Site, plus accrued interest to the redemption date.

If a defect in title to a Project or Site or the City's leasehold estate in a Project or Site does not materially affect the operation of the Project or the City's obligation to pay Lease Payments under the Lease Agreement, as determined by the Trustee and the Refunding Bonds Trustee, the Lease Agreement shall continue in full force and effect, and the City shall receive a credit towards its next Lease Payment from any title insurance award resulting from such defect.

If a defect in title to a Project or Site or the City's leasehold estate in a Project or Site materially affects the operation of such Project or the City's obligation to pay Lease Payments under the Lease Agreement, as determined by the Trustee and the Refunding Bonds Trustee, the Net Proceeds of any title insurance award shall be paid, on a pro rata basis in accordance with the First Supplemental Trust Agreement, to the Trustee for prepayment of 1986 Obligations in accordance with the Trust Agreement and to the Refunding Bonds Trustee for redemption of a corresponding portion of Refunding Bonds in accordance with the Refunding Bonds Indenture, and there shall be a partial abatement of Lease Payments in proportion to the Project or Site affected by such defect.

Application of Net Proceeds

The Net Proceeds of any insurance award resulting from any damage to or destruction of any Project by fire or other casualty shall be paid to the Trustee and the Refunding Bonds Trustee, as joint assignees of the Corporation under the Assignment Agreement, pro rata in accordance with the First Supplemental Trust Agreement, with the pro rata portion payable to the Trustee being deposited into the Insurance and Condemnation Fund for application as set forth in the Trust Agreement and the pro rata portion payable to the Refunding Bonds Trustee being deposited into the Redemption Account of the Revenue Fund.

The Net Proceeds of any eminent domain award and the Net Proceeds of title insurance relating to the Project or the Site shall be paid to the Trustee and the Refunding Bonds Trustee, as joint assignees of the Corporation under the Assignment Agreement, pro rata in accordance with the First Supplemental Trust Agreement, with the pro rata portion payable to the Trustee being deposited into the Insurance and Condemnation Fund for application as set forth in the Trust Agreement and the pro rata portion payable to the Refunding Bonds Trustee being deposited into the Redemption Account of the Revenue Fund.

Amendment of Lease Agreement

Without the prior written consent of the Trustee and the Refunding Bonds Trustee, the City will not alter, modify or cancel, or agree or consent to alter, modify or cancel the Lease Agreement, excepting only such alteration or modification as may be permitted by the Trust Agreement.

Security Deposit and Purchase Option

Certain provisions of the Lease Agreement relating to security deposits to prepay Lease Payments and the exercise of the City's option to purchase the Project are amended to provide for such deposits and purchase payments to be made for the benefit of 1986 Obligations and a corresponding portion of Refunding Bonds on a pro rata basis.

Mandatory Prepayment From Net Proceeds of Insurance or Eminent Domain

The City shall be obligated to prepay the Lease Payments allocable to a Project and related Site, in whole or in part on any Lease Payment Date, from and to the extent of any Net Proceeds of insurance award or condemnation award with respect to such Project and Site theretofore deposited on a pro rata basis in accordance with the First Supplemental Trust Agreement in the Lease Payment Fund for such purpose pursuant to the Trust Agreement, and in the Redemption Account of the Revenue Fund pursuant to the Refunding Bonds Indenture. The City and the Corporation agree that such Net Proceeds, to the extent remaining after payment of any delinquent Lease Payments, shall be credited towards the City's obligations.

Amendments to Insurance Covenants

The covenants contained in the Lease Agreement relating to the fire and extended coverage are clarified and amended to provide that such insurance may be in the form of a policy which covers the Projects and one or more additional parcels of real property insured by the City, provided that the amount of coverage available thereunder shall be at least equal to the lesser of (i) the cumulative replacement values of the Projects and any other such property which is the subject of a lease, installment purchase or other financing arrangement ("Financed Property") for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") or (ii) the unpaid principal or face amounts due on all Obligations, Certificates, Bonds and Additional Bonds which are Outstanding; in the event the City elects to obtain insurance for the Projects and one or more additional parcels of real property and the amount of the insurance proceeds available to pay all claims thereunder is not sufficient to cover the replacement values of all such properties, then any such proceeds shall be used first to rebuild or repair the Projects and all Financed Properties or to repay all Obligations, Certificates, the Bonds and Additional Bonds.

The covenants contained in the Lease Agreement relating to rental interruption insurance are clarified and amended to provide that the City may obtain rental interruption insurance covering the Projects as well as other parcels of property owned by the City, provided that the cumulative amount thereof is at least equal to the cumulative amount of rental interruption insurance required by the Lease Agreement and any agreements relating to Financed Property in respect of which Obligations are outstanding.

THE FIRST AMENDMENT TO ASSIGNMENT AGREEMENT (1986 OBLIGATIONS)

Pursuant to the First Amendment to Assignment Agreement dated as of April 1, 1994 among the Corporation, as successor in interest to Rauscher, the Trustee and the Refunding Bonds Trustee, the assignment by the Corporation of its rights and interest in the Lease Agreement is made to both the Trustee and the Refunding Bonds Trustee as joint assignees, for the pro rata benefit of the 1986 Obligations and a corresponding portion of Refunding Bonds.

THE FIRST SUPPLEMENTAL TRUST AGREEMENT (1986 OBLIGATIONS)

Parity Rights under Lease Agreement

The rights of the Trustee and the Refunding Bonds Trustee with respect to the Lease Agreement, including their respective rights to receive Old Lease Payments and New Lease Payments thereunder, shall be on a parity basis on the terms and conditions set forth in the First Supplemental Trust Agreement.

Assignment Rights in Lease Agreement

The Corporation has transferred, assigned and set over to the Trustee and the Refunding Bonds Trustee, pursuant to the Assignment Agreement, certain of its rights in the Lease Agreement, including but not limited to all of the Corporation's rights to receive and collect all of the Lease Payments and all other amounts required to be deposited in the Lease Payment Fund and the Revenue Fund pursuant to the Lease Agreement, the Trust Agreement or the Refunding Bonds Indenture. Except as otherwise provided in the Lease Agreement, all Old Lease payments and such other related amounts to which the Corporation may at any time be entitled shall be paid directly to the Trustee, and all New Lease Payments and such other related amounts which the Corporation may at any time be entitled shall be paid directly to the Refunding Bonds Trustee, and all of the Lease Payments collected or received by the Corporation shall be deemed to be held and to have been collected and received by the Corporation shall be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee and the Refunding Bonds Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee or the Refunding Bonds Trustee, as the case may be, within one Business Day after the receipt thereof, and all such Lease Payments and such other amounts shall be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund, except as provided in the First Supplemental Trust Agreement.

Deposits

There shall be deposited in the Lease Payment Fund all amounts required to be deposited therein pursuant to the Lease Agreement, and all Old Lease Payments received by the Trustee for deposit therein, including any moneys required to be deposited therein pursuant to the Lease Agreement or pursuant to the Trust Agreement, and including any other moneys required to be credited towards payment of Old Lease Payments. The Trustee shall, not less than five Business Days prior to any Lease Payment Date, notify the City of the amount to be paid by the City, after taking into account investment earnings which will be transferred to the Lease Payment fund on or before the next occurring Payment Date.

Pro Rata Application of Insurance Proceeds

Notwithstanding anything in the Trust Agreement to the contrary, in the event of any payments made under the Lease Agreement from the Net Proceeds of insurance or condemnation awards or as a result of the enforcement of remedies to recover delinquent Lease Payments, the Trustee and the Refunding Bonds Trustee shall receive such payments on a pro rata basis, with the Trustee receiving the same proportion as all unpaid Old Lease Payments bear to all unpaid Lease Payments, and with the Refunding Bonds Trustee receiving the same proportion as all unpaid New Lease Payments bear to all unpaid Lease Payments. If any such amounts are received by the Trustee or the Refunding Bonds Trustee in excess of such party's pro rata portion as described above, such party shall hold such excess in trust as trustee for the benefit of the other party.

Enforcement of Remedies

The Trustee shall enforce all remedies available to the Corporation during the occurrence and continuance of an event of default under the Lease Agreement; provided, however, that such remedies shall be exercised on behalf of all owners of 1986 Obligations and holders of Refunding Bonds on a parity basis, without preference, priority or distinction. Any amounts generated from the enforcement of such remedies shall be received by the Trustee and the Refunding Bonds Trustee on a pro rata basis. The Trustee shall not take any action which is prejudicial to the rights of the holders of the Refunding Bonds. The Trustee acknowledges that the Refunding Bonds Trustee reserves the right to enforce all remedies available to the Corporation under the Lease Agreement if the Trustee does not carry out its duties to the satisfaction of the Refunding Bonds Trustee.

DEFINITIONS RELATING TO THE 1989 OBLIGATIONS

The term "First Supplemental Trust Agreement" means that certain First Supplemental Trust Agreement dated as of April 1, 1994 by and between the Authority and First Interstate Bank of California, as trustee (the "Trustee").

The term "Lease Agreement" means that certain Lease Agreement dated as of June 1, 1989 by and between the City and the Authority, as amended by the First Amendment to Lease Agreement dated as of April 1, 1994 by and between the City and the Authority.

The term "Lease Payments" means, collectively, Old Lease Payments and New Lease Payments.

The term "New Lease Payments" means the Lease Payments described as such in the Lease Agreement, payable to the Refunding Bonds Trustee.

The term "Old Lease Payments" means the Lease Payments described as such in the Lease Agreement, payable to the Trustee.

The term "Redemption Account of the Revenue Fund" means the account by that name established and maintained pursuant to the Refunding Bonds Indenture.

The term "Refunding Bonds" means the City of San Diego/MTDB Authority Lease Revenue Bonds (1994 Refundings).

The term "Refunding Bonds Indenture" means the Indenture dated as of April 1, 1994 by and between the City of San Diego/MTDB Authority and the Refunding Bonds Trustee, as amended.

The term "Refunding Bonds Trustee" means First Interstate Bank of California, as trustee for the Refunding Bonds, and any successor.

The term "Trust Agreement" means that certain Trust Agreement dated as of July 15, 1989 by and between the Authority and Bankers Trust Company, as Trustee, as amended and supplemented by the First Supplemental Trust Agreement.

THE PROPERTY LEASE (1989 OBLIGATIONS)

Pursuant to the Property Lease, the Authority agrees to lease the Property from the San Diego Metropolitan Transit Development Board ("MTDB") and San Diego & Arizona Eastern Railway Company solely for the purpose of acquiring, constructing, installing and equipping the Project and leasing the Project, including the Property, to the City pursuant to the Lease Agreement.

The term of the Property Lease commences on the date of recordation and ends on June 1, 2009, unless such term is extended or sooner terminated, as therein provided.

The Authority may not assign its rights under the Property Lease except as provided in the Lease Agreement, without the written consent of MTDB, unless the City shall be in default under the Lease Agreement.

Pursuant to the Property Lease, MTDB is obligated to provide the City with a policy of title insurance insuring the title of MTDB (and its wholly owned subsidiary) to the Property which is the subject of the Property Lease.

THE LEASE AGREEMENT (1989 OBLIGATIONS)

Pursuant to the Lease Agreement, the Authority agrees to lease the Project to the City, and the City agrees to lease the Project from the Authority.

Acquisition and Construction of the Project

The Authority agrees to acquire and construct the Project. The Authority has, pursuant to the Agency Agreement, appointed the MTDB as its agent for the purposes of acquisition; construction, installation and equipping of the Project and in furtherance thereof the Authority and the MTDB have entered into the Agency Agreement.

Term of the Lease; Title to the Project

The term of the Lease Agreement is for a period commencing as of the Closing Date for the 1989 Obligations and ending on June 1, 2009, unless terminated sooner or extended pursuant to the Lease Agreement. The Lease Agreement may be terminated before June 1, 2009, in the event of a default by the City and the Authority's election to terminate the Lease Agreement or if the Trust Agreement is discharged by its terms. The term may be extended to the extent all 1989 Obligations and related Refunding Bonds have not been fully paid and retired, except that in no event will the term extend beyond June 1, 2039.

If the City exercises its option to purchase the Project, all right, title and interest of the Authority in and to the Project shall be transferred to and vested in the City or its designee.

Lease Payments; Additional Payments

The Lease Agreement provides that the City shall make the Lease Payments semi-annually for its use and occupancy of the Project during the term of the Lease Agreement commencing with the Lease Payment Date following the date the Project is satisfactorily completed and available for use. Such Lease Payments, however, may be reduced if, because the Project is destroyed, damaged, condemned or subject to title defect, there is substantial interference with the use and possession by the City of the Project. The amount of such abatement shall be such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Project not removed from use by the City.

The City has covenanted in the Lease Agreement to include any Lease Payments and Additional Lease Payments (described below) due during the ensuing fiscal year in its annual budget and to make the necessary appropriations therefor.

The Lease Agreement also provides that the City shall pay when due, in addition to the Lease Payments, the Additional Lease Payments, which include all costs and expenses incurred by the Authority to comply with the provisions of the Trust Agreement, the Property Lease, the Agency Agreement and the Lease Agreement, including, without limitation, all costs of issuance of the Bonds to the extent not paid from amounts on deposit in the Construction and Acquisition Fund, compensation and indemnification due to the Trustee, including attorneys' fees and expenses, insurance premiums and all of the costs and expenses of auditors, attorneys, engineers and accountants.

Option to Purchase the Project

Pursuant to the Lease Agreement, the City may at anytime acquire the Project by paying a Purchase Option Price equal to the principal amount of, applicable premium, if any, and accrued but unpaid

interest on the Outstanding 1989 Obligations to the applicable prepayment date, plus all additional rental payments due.

Upon the City's exercise of its purchase option and the redemption or defeasance of all the Bonds, all obligations of the City under the Lease Agreement shall cease and terminate, and title to the Project shall vest in the City or its designee. The City will exercise its option by giving notice thereof to the Trustee not later than forty-five (45) days prior to the Business Day on which it desires to purchase the Project.

Insurance

The City covenants in the Lease Agreement to maintain public liability insurance in connection with the construction or operation of the Project with limits of not less than \$5,000,000 combined single limit bodily injury and property damage with such deductible provisions as the City provides on like coverage but not to exceed 10% of the face amount. Such liability insurance may be provided in the form of self-insurance by the City or MTDB. The City further covenants to maintain or cause to be maintained fire, lightning, vandalism, malicious mischief and extended coverage (including flood but not earthquake) insurance. Such insurance shall be in an amount equal to the greater of one hundred percent (100%) of the replacement cost of the Project or the aggregate principal amount of the outstanding 1989 Obligations. Such insurance may be subject to deductible clauses of not to exceed \$100,000 for any one loss. Such insurance may be provided in the form of self-insurance by the City or MTDB.

The City also agrees to maintain rental interruption or use and occupancy insurance, after completion of the Project, covering loss of the use of any part of its Project as the result of fire, lightning, vandalism or other hazards (other than earthquake) specified in the Lease Agreement in an amount at least equal to the largest aggregate Lease Payments to be paid in any 24 month period. Workers' compensation insurance must also be provided by the City, but may be effected through self-insurance of the City or MTDB.

All required insurance (except rental interruption insurance and title insurance) may include self-insurance and customary deductible amounts, and, all required insurance if commercially obtained, must be maintained under policies requiring at least thirty (30) days' prior written notice to the Trustee before expiration, cancellation or reduction of the coverage provided thereby. Insurance proceeds will be made payable to the Trustee (except in the case of public liability and property damage insurance).

The Net Proceeds of any fire and extended coverage insurance award resulting from any damage or destruction to all or any portion of the Project shall be deposited with the Trustee for application in accordance with the Trust Agreement within 60 days of damage, destruction, condemnation or title defect, the City shall elect either (a) that such Net Proceeds are to be utilized for the repair, replacement or restoration of the Project and sufficient funds, together with such Net Proceeds, have been appropriated to pay the total cost of such repair, replacement or improvement, or (b) that the 1989 Obligations shall be redeemed in whole or in part from such funds.

The Net Proceeds of any title insurance or rental interruption insurance award shall be deposited with the Trustee in the Lease Payment Account and shall be credited towards the prepayment of remaining Lease Payments pursuant to the terms of the Lease Agreement.

Maintenance of the Project

The Lease Agreement provides that the City will maintain the Project in good order, condition and repair and provide all security service, custodial service, utilities and other services necessary for the proper upkeep and maintenance of the Project.

Assignment and Lease

The Lease Agreement provides that the City shall not mortgage, pledge, assign or transfer any interest of the City in the Lease Agreement by voluntary act or by operation of law or otherwise; provided, however, that the City may lease or sublet all or any portion of the Project, may grant concessions to others involving the use of any portion of the Project and may assign its right to purchase the Project. Pursuant to the Sublease Agreement, dated as of June 1, 1989, by and between the City and MTDB (the "Sublease"), the City sublets the Project to MTDB for maintenance and operation purposes.

Additions and Improvements; Removal

The City has the right during the term of the Lease Agreement to make any additions or improvements to the Project, to attach fixtures, structure or signs and to affix any personal property to the Project so long as the utility of the Project and the fair rental value of the Project is not thereby reduced. Title to all fixtures, equipment or personal property placed by the City on the Project will remain in the City.

Events of Default and Remedies

Events of default under the Lease Agreement include: (1) failure of the City to deposit any Lease Payments or Additional Lease Payments by the due date thereof, (2) breach by the City of any other terms, covenants or conditions contained in the Lease Agreement or in the Trust Agreement and failure to remedy such breach within thirty (30) days after written notice thereof given to the City by the Trustee, as assignee of the Authority; provided the Trustee, as assignee of the Authority may consent to an extension of such cure period until the default is corrected, if corrective action has been instituted and is being diligently pursued.

The Lease Agreement provides that upon the happening of an event of default, the Authority, or any assignee of the rights of the Authority under the Lease Agreement, shall have the right, at its option, without any further demand or notice, to re-enter the Project and eject all parties in possession therefrom and, without terminating the Lease Agreement, re-let the Project as the agent and for the account of the City upon such terms and conditions as the Authority or its assignee may deem advisable, in which event rents received will be applied first to the expenses of re-letting and collection, including expenses necessary for repair or restoration of the Project to its original condition (taking into account normal wear and tear), reasonable attorneys' fees and any real estate commission actually paid and second to the Prepayment Account within the Bond Fund. The Authority, or any assignee of the rights of the Authority under the Lease Agreement, shall also have such other remedies which are legally available. In no event will the Authority or any assignee have the right to accelerate the payment of any Lease Payments under the Lease Agreement.

THE TRUST AGREEMENT (1989 OBLIGATIONS)

Pursuant to the Trust Agreement, the Authority transfers certain of its rights, title and interest in and invests, transfers and disburses monies on deposit therein. The Trust Agreement establishes the Construction and Acquisition Fund, the Bond Fund and the Reserve Fund. Within the Bond Fund, there is established a Lease Payment Account, Prepayment Account and Capitalized Interest Account. Amounts under

the Trust Agreement (except for the Excess Investment Earnings Fund described below) are pledged to the payment of the Bonds.

The Construction and Acquisition Fund has been established for the purpose of paying the costs of the Project, including reimbursement of certain amounts to the City and costs of issuance with respect to the Bonds.

Payments of Lease Payments, net casualty insurance proceeds, proceeds of rental interruption insurance, liquidated damages and condemnation awards will be deposited by the Trustee into the Bond Fund.

Amounts in the Reserve Fund are to be transferred into the Bond Fund if on any Interest Payment Date, Sinking Account Installment Date or Prepayment Date amounts on deposit in the Bond Fund are insufficient to pay principal and interest payments on any Interest Payment Date or upon maturity or earlier prepayment, with respect to the Bonds on such date. Amounts in the Reserve Fund may also be applied to the final principal payments on the Bonds.

Pursuant to the Trust Agreement and notwithstanding anything to the contrary the Authority may at any time substitute a conforming letter of credit for the Authority then held in the Reserve Fund and upon such substitution, the Authority shall be entitled to receive all monies then held in the Reserve Fund free and clear of the lien of the Trust Agreement. The conforming letter of credit shall mean any letter of credit or surety bond and (i) issued by an institution whose long-term debt is rated "AA" or better by S&P and Moody's and is approved in writing by S&P and Moody's, (ii) having a term of one year or longer and a stated principal amount available for payment equal to the Reserve Requirement, (iii) the terms of which require payment on one or more draws or demands therefor to the Trustee on the day following demand therefore, conditioned solely on receipt from the Trustee of certification that the conditions to transfer of monies from the Reserve Fund to the funds and accounts created under the Trust Agreement have occurred and specifying the amount demanded (iv) accompanied by an opinion of bond counsel to the effect that the delivery of the letter of credit or surety bond will not adversely affect the exclusion of interest on the Bonds from gross income for federal tax purposes under and following demand therefore, conditioned solely on receipt from the Trustee of certification that the conditions to transfer of monies from the Reserve Fund to the funds and accounts created under the Trust Agreement have occurred and specifying the amount demanded (v) accompanied by an opinion of bond counsel to the effect that the delivery of the letter of credit or surety bond will not adversely affect the exclusion of interest on the Bonds from gross income for federal tax purposes under Section 103 of the Code and an opinion of counsel to the effect that the letter of credit or surety bond is a valid and binding obligation of the issuer thereof enforceable against it in accordance with its terms subject only to customary bankruptcy and creditors remedies applicable to the issuer thereof.

Any such conforming letter of credit must also permit payment to the Trustee seven days prior to the expiration date thereof unless the Trustee receives the Reserve Requirement either in cash or in the form of a substitute conforming letter of credit prior to such date.

In the event the Authority delivers a conforming letter of credit, the Trustee shall hold and apply such instrument pursuant to the Trust Agreement so as to have monies available thereunder.

Authorized Investments

All monies held by the Trustee in any of the funds or accounts of the Trust Agreement must be invested in Qualified Investments which are defined to include:

- (1) Municipal Obligations, but only when the Trustee is specifically directed to invest solely in Municipal Obligations;
- (2) United States Treasury notes, bonds, bills or certificates of indebtedness, or other obligations of or guaranteed as to principal and interest by the United States or any

agency or instrumentality thereof, for which the full faith and credit of the United States of America are pledged for the payment of principal and interest including without limitation, Farmers Home Administration certificates of beneficial ownership, General Services Administration participation certificates, Small Business Administration guaranteed participation pool certificates, Government National Mortgage Association guaranteed mortgage-backed securities or participation certificates and U.S. Department of Housing and Urban Development local authority bonds.

(3) (a) obligations issued by federal land banks, federal intermediate credit banks, federal home loan banks, (b) Federal Home Loan Bank consolidated debt obligations or letter of credit backed issues, (c) Federal Home Loan Mortgage Corporation participation certificates or debt obligations or Federal Housing Administration debentures, (d) obligations, participation or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Federal National Mortgage Association, (e) other obligations, participation or other instruments of or issued by a federal agency or a United States of America government-sponsored enterprise, so long as such obligations are fully guaranteed as to interest and principal by the United States of America;

(4) Demand deposits or negotiable certificates of deposit issued by (a) the Trustee, or (b) any bank, trust company or savings and loan association organized under the laws of any state of the United States of America or any national banking association; provided that such deposits or certificates of deposit shall be (i) continuously and fully insured by either the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or (ii) issued by any bank, trust company or savings and loan association organized under the laws of any state of the United States or any national banking association having a combined capital and surplus or shareholders' equity, as the case may be, of at least \$50,000,000, so long as the deposits to which such deposits or certificates of deposit relate (A) do not exceed at any one time in the aggregate 10% of the total of the capital and surplus or shareholders' equity, as the case may be, of such bank or trust company or savings and loan association or national banking association, and (B) are continuously and fully secured by such securities as are described above in clauses (2) or (3) which shall have a market value (exclusive of accrued interest) at all times at least equal to 110% of the principal amount of such deposits or certificates of deposit (marked to market at least weekly), and (iii) issued by any bank, trust company or savings and loan association the short-term obligations of which are rated in the highest rating category by S&P and Moody's and have a term or maturity of not more than 365 days;

(5) Any repurchase agreement with any bank or trust company organized under the laws of any state of the United States (including the Trustee), or by any national banking association or government bond dealer reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York, whose debt is rated AA (long term) or A-1+ (short term) by S&P, as applicable or which agreement is secured as to both principal and interest by any one or more of the securities described in clauses (2) or (3) above (marked to market at least weekly), at levels of collateral acceptable to S&P in light of the maturity of the investment, if the Trustee shall have received any opinion of legal counsel to the effect that the Trustee has received perfected first security interest in such securities securing such repurchase agreement and that the Trustee or its appointed agent holds such obligations free and clear of the claims of third parties;

(6) Any obligations rated AA- or better by S&P and Aa or better by Moody's, excluding obligations without a fixed par value and/or which do not provide a fixed amount at maturity or redemption;

(7) Commercial paper (having original maturities of not more than 365 days) rated A-1+ by S&P and in the highest rating category by Moody's;

(8) Any investment agreement approved by S&P and with a financial institution whose long-term obligations are rated Aa or better by Moody's; and

(9) Any short term (less than 365 days) investment fund which shall be money market funds to be maintained by the Trustee for the investment of moneys the investment of which has not been otherwise directed by the Authority and bearing interest at not less than the rate paid by the Trustee on demand deposits so long as such money market fund is rated AAm or AAm-G or better.

Prior to the Completion Date, amounts received in respect of monies on deposit in any fund or account shall be deposited in the Construction and Acquisition Fund and applied pursuant thereto and after the Completion Date, amounts received in respect of monies on deposit in any fund or account shall be deposited first in the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement shall be credited to the Lease Payment Account in the Bond Fund.

Surplus

Any amount remaining in any of the funds or accounts established under the Trust Agreement after the payment of all principal, premium, if any, and interest with respect to the 1989 Obligations and the payment of the expenses of the Trustee (or adequate provision therefor) will be remitted to the Authority.

Excess Investment Earnings Fund

The Trust Agreement creates the Excess Investment Earnings Fund into which shall be deposited from time to time amounts which may be payable to the United States pursuant to Section 14a(f) of the Code. In general, these amounts relate to moneys attributable to the investment of Bond proceeds and funds held pursuant to the Trust Agreement at a yield, as defined in the Code, in excess of the yield in the 1989 Obligations in particular, such amounts may be payable to such Fund for earnings on the Reserve Fund and the Construction and Acquisition Fund.

Defeasance

Pursuant to the Trust Agreement, the Authority may defease the 1989 Obligations, or any portion thereof, at any time by depositing certain U.S. government backed securities with the Trustee in an amount sufficient, together with interest to accrue thereon, to pay and discharge the 1989 Obligations (or portion thereof) at or before their respective maturities.

Events of Default and Remedies

Events of default under the Trust Agreement include (1) an event of default under the Lease Agreement and (2) failure by the Authority to observe and perform any other covenant, condition or agreement on its part to be observed or performed under the Trust Agreement or the Lease Agreement for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the Authority by the Trustee or to the Authority and the Trustee by the Owners of not less than a majority in aggregate principal amount of 1989 Obligations then outstanding; provided, however, that if the failure stated in the notice cannot be corrected within such period, then the Trustee and the Owners (if applicable) shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Authority within such period and diligently pursued, until the default is corrected.

The Trust Agreement provides that upon the occurrence and continuance of any event of default specified in clause (1) of the preceding paragraph the Trustee shall proceed, or upon the occurrence and continuance of any other event of default under the Trust Agreement the Trustee may proceed (and upon the written request of the Owners of not less than a majority in aggregate principal amount of 1989 Obligations then outstanding shall proceed to exercise the remedies set forth in the Lease Agreement or available to the Trustee under the Trust Agreement.

The owners of majority in principal amount of the 1989 Obligations may bring suit to enforce rights under the Lease Agreement or Trust Agreement, but only after the Trustee has been requested to do so and has declined, all in accordance with the requirements of the Trust Agreement.

The Trustee

The Authority may at any time so long as no event of default has occurred and is continuing, or the owners of a majority in aggregate principal amount of all 1989 Obligations then outstanding may by written request at any time and for any reason, remove the Trustee and any successor thereto, and shall thereupon appoint, a successor or successors thereto, but any such successor shall be a commercial bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$50 million and shall be subject to supervision or examination by federal or state banking authority. Any removal of the Trustee will become effective upon acceptance of appointment by the successor Trustee.

The Trustee or any successor may resign by giving notice as provided in the Trust Agreement.

Prior to any event of default under the Trust Agreement, the Trustee shall perform only such duties as are specifically imposed on it by the Trust Agreement. No provision of the Trust Agreement obligates the Trustee to expend its own funds or incur any financial liability in the performance of its duties without adequate assurance of payment. The Trustee may rely on any documents which it believes in good faith to be genuine, and the Trust Agreement does not impose any duty of investigation with respect to such documents. The Trustee may hire and rely upon experts and consultants in the administration of its duties under the Trust Agreement.

Amendment

The Trust Agreement may be amended in writing by the Authority and the Trustee without the consent of any owners of the 1989 Obligations (i) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision contained in the Trust Agreement; (ii) in regard to questions arising under the Trust Agreement which the Authority and the Trustee may deem necessary or desirable and not inconsistent with the Trust Agreement and which do not adversely affect the interests of the owners; or (iii) for any other reason, provided such modification or amendment does not adversely affect the interests of the owners; provided that the Authority and the Trustee may rely in entering into any such modification or amendment upon an opinion of counsel stating that the foregoing requirements have been met with respect to such amendment. The Trust Agreement may be amended for any other purpose with the consent of the parties thereto and the owners of a majority in aggregate principal amount of the 1989 Obligations then outstanding except that no amendment may impair the right of any owner to receive the principal and interest due with respect to its 1989 Obligations. The Trust Agreement contains provisions relating to the calling of meetings of the owners for the purpose of considering amendments requiring the owner's consent and to the procedures to be followed at such meetings. The Lease Agreement may be amended by the Authority and the City, but only in accordance with the restrictions in the Trust Agreement applicable to amendment of the Trust Agreement.

No Liability of Authority for Trustee Performance

The Authority shall not have any obligation or liability to the Trustee or to the owners of 1989 Obligations with respect to the performance by the Trustee of any duty imposed upon either of them under the Trust Agreement, including the distribution of principal and interest to such owners.

No Liability of Trustees for Lease Payments by City

Except as provided in the Trust Agreement, the Trustee shall not have any obligation or liability to the owners of 1989 Obligations with respect to the payment of the Lease Payments by the City or any other covenant made by it in the Lease Agreement.

No Liability of City Except as Stated

Except for (i) the payment of Lease Payments and Additional Rental when due in accordance with the terms of the Lease Agreement, and (ii) the performance by the City of its obligations and duties as set forth in the Lease Agreement, the City shall have no obligation or liability to the Trustee or the owners of 1989 Obligations.

THE FIRST AMENDMENT TO LEASE AGREEMENT (1989 OBLIGATIONS)

Amendment

The First Amendment to Lease amends the Lease Agreement to provide for the payment of principal and interest with respect to the Refunding Bonds and the 1989 Obligations outstanding after the refunding described in the Official Statement. In addition, the certain provisions relating to insurance are clarified as described below.

Application of Net Proceeds

Certain sections of the Lease Agreement are amended in order to apply net proceeds of insurance claims or condemnation awards for the benefit of the owners of the 1989 Obligations and a corresponding portion of Refunding Bonds on a pro rata basis.

City's Prepayment and Purchase Option

Certain provisions of the Lease Agreement relating to prepayment and the exercise of the City's option to purchase the Project are amended to provide for such purchase payments to be made for the benefit of 1989 Obligations and a corresponding portion of Refunding Bonds on a pro rata basis.

Amendments to Insurance Covenants

The covenants contained in the Lease Agreement relating to fire and extended coverage insurance are clarified amended to provide that such insurance may be in the form of a policy which covers the Project and one or more additional parcels of real property insured by the City, provided that the amount of coverage available thereunder shall be at least equal to the lesser of (i) the cumulative replacement values of the Project and any other such property which is the subject of a lease, installment purchase or other financing

arrangement ("Financed Property") for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") or (ii) the unpaid principal or face amounts due on all Obligations, Certificates, Bonds and Additional Bonds which are outstanding; in the event the City elects to obtain insurance for the Project and one or more additional parcels of real property and the amount of the insurance proceeds available to pay all claims thereunder is not sufficient to cover the replacement values of all such properties, then any such proceeds shall be used first to rebuild or repair the Project and all Financed Property or to repay all Obligations, Certificates, Bonds and Additional Bonds.

The covenants contained in the Lease Agreement relating to use and occupancy insurance are clarified and amended to provide that the City may obtain use and occupancy insurance covering the Project as well as other parcels of property owned by the City, provided that the cumulative amount thereof is at least equal to the cumulative amount of use and occupancy insurance required by the Lease Agreement and any agreements relating to Financed Property in respect of which Obligations are outstanding.

THE FIRST SUPPLEMENTAL TRUST AGREEMENT (1989 OBLIGATIONS)

Parity Rights under Lease Agreement

The rights of the Trustee and the Refunding Bonds Trustee with respect to the Lease Agreement, including their respective rights to receive Old Lease Payments and New Lease Payments thereunder, shall be on a parity basis on the terms and conditions set forth in the First Supplemental Trust Agreement.

Pro Rata Application of Insurance Proceeds

Notwithstanding anything in the Trust Agreement to the contrary, in the event of any payments made under the Lease Agreement from the Net Proceeds of insurance or condemnation awards or as a result of the enforcement of remedies to recover delinquent Lease Payments, the Trustee and the Refunding Bonds Trustee shall receive such payments on a pro rata basis, with the Trustee receiving the same proportion as all unpaid Old Lease Payments bear to all unpaid Lease Payments, and with the Refunding Bonds Trustee receiving the same proportion as all unpaid New Lease Payments bear to all unpaid Lease Payments. If any such amounts are received by one party hereto in excess of such party's pro rata portion as described above, such party shall hold such excess in trust as trustee for the benefit of the other party.

Enforcement of Remedies

The Trustee shall enforce all remedies available to the Authority during the occurrence and continuance of an event of default under the Lease Agreement; provided, however, that such remedies shall be exercised on behalf of all owners of 1989 Obligations and holders of Refunding Bonds on a parity basis, without preference, priority or distinction. Any amounts generated from the enforcement of such remedies shall be received by the Trustee and the Refunding Bonds Trustee on a pro rata basis. The Trustee shall not take any action which is prejudicial to the rights of the holders of the Refunding Bonds. The Trustee acknowledges that the Refunding Bonds Trustee reserves the right to enforce all remedies available to the Authority under the Lease Agreement if the Trustee does not carry out its duties to the satisfaction of the Refunding Bonds Trustee.

APPENDIX C

EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (YEAR ENDED JUNE 30, 1993)

CALDERON, JAHAM & OSBORN

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

SYMPHONY TOWERS

750 "B" STREET, SUITE 1925

SAN DIEGO, CALIFORNIA 92101

TELEPHONE (619) 234-5137

FAX (619) 234-5162

**OFFICES
IN
SAN DIEGO
EL CENTRO
BRAWLEY**

INDEPENDENT AUDITORS' REPORT

**The Honorable Mayor, Members of the
City Council and City Manager of the
City of San Diego, California:**

We have audited the accompanying general purpose financial statements and the combining and individual fund and account group financial statements and schedules of the City of San Diego, California, as of June 30, 1993, and for the year then ended as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the City of San Diego, California management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

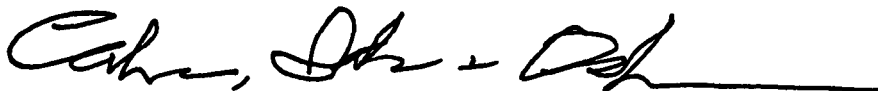
We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of San Diego, California, as of June 30, 1993, and the results of its operations and cash flows of its proprietary fund types and similar trust funds for the year then ended, in conformity with generally accepted accounting principles. Also, in our opinion, the combining and individual fund and account group financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds and account groups of the City of San Diego, California, as of June 30, 1993, and the results of operations of such funds and its cash flows of the individual proprietary fund types and similar trust funds for the year then ended, in conformity with generally accepted accounting principles.

CALDERON, JAHAM & OSBORN

The scope of our audit did not include the statistical section listed in the foregoing table of contents. Such information has not been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, accordingly, we express no opinion on it.

November 3, 1993

A handwritten signature in dark ink, appearing to read "Calderon, Jaham & Osborn", followed by a long horizontal line.

GENERAL PURPOSE FINANCIAL STATEMENTS

IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD, THE FOLLOWING COMBINED STATEMENTS ARE PRESENTED:

Combined Balance Sheet - All Fund Types and Account Groups.

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds.

Combined Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Budgeted Governmental Fund Types.

Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances - All Proprietary Fund Types and Similar Trust Funds.

Combined Statement of Cash Flows - Increase (Decrease) in Cash and Cash Equivalents - All Proprietary Fund Types and Nonexpendable Trust Fund.

Notes to Financial Statements.

Required Supplementary Information - Pension Trust Funds Analysis of Funding Progress.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS June 30, 1993 With Comparative Figures for June 30, 1992 (In Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Cash or Equity in Pooled				
Cash and Investments	\$ 21,450	\$ 124,063	\$ 7,245	\$ 219,119
Cash With Custodian/Fiscal Agent	0	1,559	3,597	0
Investments at Cost	0	16,895	36,595	21,370
Receivables:				
Taxes - Net	15,366	1,033	110	0
Accounts - Net	16,076	3,334	0	0
Claims - Net	5	0	0	0
Special Assessments - Net	0	1,283	5,886	0
Notes	0	24,113	0	3,751
Contributions	0	0	0	0
Accrued Interest	2,277	1,375	110	1,867
Grants	0	6,092	0	4,520
Loans to Redevelopment Agency	0	453	0	0
From Other Funds	35,534	472	0	0
From Other Agencies	70	38,507	0	0
Advances to Other Funds	21,869	1,289	0	482
Advances to Other Agencies	350	344	0	0
Inventories of Water in Storage	0	0	0	0
Inventories	0	0	0	0
Land Held for Resale	0	1,271	0	18,841
Prepaid and Reimbursable Items and Deposits	784	380	1,808	0
Restricted Assets:				
Cash or Equity in Pooled Cash and Investments -				
Interest and Redemption Funds	0	1,991	0	0
Cash with Custodian/Fiscal Agent	0	0	0	0
Fixed Assets - Net	0	0	0	0
Amount Available for Payment of				
General Long-Term Debt	0	0	0	0
Amount to be Provided for Retirement				
of Long-Term Debt	0	0	0	0
TOTAL ASSETS AND OTHER DEBITS	\$ 113,781	\$ 224,454	\$ 55,351	\$ 269,950
	=====	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	1993	1992
\$ 425,578	\$ 45,503	\$ 277,986	\$ 0	\$ 0	\$ 1,120,944	\$ 1,099,572
16	0	308	0	0	5,480	4,700
3,927	0	1,139,107	0	0	1,217,894	1,258,990
0	0	0	0	0	16,509	19,500
51,840	90	1,348	0	0	72,688	64,703
0	0	0	0	0	5	270
14	0	0	0	0	7,183	4,792
5	0	0	0	0	27,869	24,595
0	0	2,374	0	0	2,374	1,806
3,942	41	10,057	0	0	19,669	19,842
17,409	0	0	0	0	28,021	20,458
0	0	0	0	0	453	409
1,500	0	0	0	0	37,506	2,043
0	0	0	0	0	38,577	35,879
18,837	265	7	0	0	42,749	42,814
0	0	0	0	0	694	974
16,641	0	0	0	0	16,641	19,580
222	2,892	0	0	0	3,114	3,438
0	0	0	0	0	20,112	16,162
836	214	177	0	0	4,199	2,707
9,711	0	0	0	0	11,702	9,203
103	0	0	0	0	103	103
1,319,702	25,768	0	818,901	0	2,164,371	1,924,973
0	0	0	0	77,126	77,126	73,593
0	0	0	0	446,806	446,806	453,588
\$ 1,870,283	\$ 74,773	\$ 1,431,364	\$ 818,901	\$ 523,932	\$ 5,382,789	\$ 5,104,694
=====	=====	=====	=====	=====	=====	=====

Continued on next page

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS June 30, 1993 With Comparative Figures for June 30, 1992 (In Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES				
Obligations Under Reverse Repurchase Agreements	\$ 1,349	\$ 21,586	\$ 975	\$ 20,583
Accounts Payable	2,606	5,240	124	750
Accrued Wages and Benefits	16,794	1,327	0	0
Other Accrued Liabilities	0	27,560	0	0
Employees' Deferred Compensation /401(k) Plans	0	0	0	0
Liability Claims	0	0	0	0
Matured Bonds, Notes and Interest Payable	0	0	177	0
Interest Accrued on Long-Term Debt	0	0	0	0
Long-Term Debt Due Within One Year	0	0	0	0
Due to Other Funds	0	506	0	0
Due to Other Agencies	0	5,508	0	0
Deferred Revenue	18,766	28,930	5,922	44,664
Advances from Other Funds	0	1,249	7	58
Advances from Other Agencies	0	103	0	0
Deposits/Advances from Others	0	4,806	0	0
Sundry Trust Liabilities	0	0	0	548
Capital Lease Obligations	0	0	0	0
Contracts and Notes Payable	35,500	0	0	0
General and Special Obligation Bonds Payable	0	0	0	0
Revenue Bonds Payable - Net of Current Portion	0	0	0	0
TOTAL LIABILITIES	75,015	96,815	7,205	66,603
FUND EQUITY AND OTHER CREDITS				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings (Deficit):				
Reserved for Claims and Contingencies	0	0	0	0
Reserved for General Long-Term Claims	0	0	0	0
Unreserved	0	0	0	0
Fund Balances:				
Reserved for Land Held for Resale	0	1,271	0	18,841
Reserved for Encumbrances	7,313	14,477	0	31,580
Reserved for Advances and Deposits	22,219	1,211	0	0
Reserved for Nonexpendable Trust	0	0	0	0
Reserved for Pension Benefits	0	0	0	0
Reserved for Debt Service	0	28,980	48,146	0
Reserved for Loan Commitments	0	11,292	0	0
Reserved for Project Equity/Operations	0	4,090	0	0
Unreserved:				
Designated for Subsequent Years' Expenditures	3,211	26,630	0	99,251
Undesignated	6,023	39,688	0	53,675
TOTAL FUND EQUITY AND OTHER CREDITS	38,766	127,639	48,146	203,347
TOTAL LIABILITIES AND FUND EQUITY AND OTHER CREDITS	\$ 113,781	\$ 224,454	\$ 55,351	\$ 269,950

The accompanying notes are an integral part of the financial statements.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	1993	1992
\$ 43,632	\$ 3,769	\$ 15,061	\$ 0	\$ 0	\$ 106,955	\$ 111,834
24,503	2,589	3,965	0	0	39,777	171,341
12,427	4,256	121	0	36,337	71,262	65,055
696	0	0	0	0	28,256	24,148
0	0	61,576	0	0	61,576	52,989
1,004	27,530	0	0	21,500	50,034	64,886
103	0	0	0	0	280	265
232	0	0	0	0	232	285
4,687	0	0	0	0	4,687	4,914
1,500	0	35,500	0	0	37,506	2,043
0	0	1,810	0	0	7,318	6,671
30,836	198	413	0	0	129,729	105,002
0	40,655	780	0	0	42,749	42,814
0	0	0	0	0	103	273
1,600	0	8,062	0	0	14,468	15,918
0	0	6,298	0	0	6,846	5,839
0	0	0	0	37	37	77
7,471	0	0	0	79,891	122,862	82,552
0	0	0	0	386,167	386,167	385,600
10,387	0	0	0	0	10,387	12,789
139,078	78,997	133,586	0	523,932	1,121,231	1,155,295
0	0	0	818,901	0	818,901	765,283
981,993	226	0	0	0	982,219	895,377
0	2,754	0	0	0	2,754	1,637
0	-24,722	0	0	0	-24,722	-25,777
749,212	17,518	0	0	0	766,730	676,697
0	0	0	0	0	20,112	16,162
0	0	1,037	0	0	54,407	73,423
0	0	0	0	0	23,430	25,587
0	0	4,355	0	0	4,355	4,051
0	0	1,290,471	0	0	1,290,471	1,173,424
0	0	0	0	0	77,126	73,593
0	0	0	0	0	11,292	4,396
0	0	0	0	0	4,090	8,238
0	0	287	0	0	129,379	145,912
0	0	1,628	0	0	101,014	111,596
1,731,205	-4,224	1,297,778	818,901	0	4,261,558	3,949,399
\$ 1,870,283	\$ 74,773	\$ 1,431,364	\$ 818,901	\$ 523,932	\$ 5,382,789	\$ 5,104,694

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS Year Ended June 30, 1993 With Comparative Figures for the Year Ended June 30, 1992 (In Thousands)

	----- General -----
REVENUES	
Property Taxes and Special Assessments	\$ 121,314
Other Local Taxes	144,323
Licenses and Permits	19,909
Fines, Forfeitures and Penalties	13,951
Revenue from Use of Money and Property	23,994
Revenue from Federal Agencies	277
Revenue from Other Agencies	41,407
Revenue from Private Sources	0
Charges for Current Services	52,628
Other Revenue	2,157
TOTAL REVENUES	----- 419,960 -----
EXPENDITURES	
Current:	
General Government	71,202
Public Safety	231,348
Libraries	15,277
Parks, Recreation and Culture	40,248
General Services	57,375
Engineering and Development	22,664
Housing and Community Development	0
Public Transportation	0
Employment and Social Service Programs	463
Miscellaneous and Unallocated	2,305
Capital Projects	0
Debt Service:	
Principal Retirement	0
Interest	0
TOTAL EXPENDITURES	----- 440,882 -----
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	----- -20,922 -----
OTHER FINANCING SOURCES (USES)	
Long-Term Debt Proceeds	0
Transfers from Proprietary/Fiduciary Funds	1,073
Transfers from Other Funds	34,222
Transfers to Escrow Agent	0
Transfers to Proprietary Funds	-8,399
Transfers to Other Funds	-4,525
Cost of Issuance, Bonds and Notes	0
TOTAL OTHER FINANCING SOURCES (USES)	----- 22,371 -----
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	----- 1,449 -----
Fund Balances at Beginning of Year	36,817
Residual Equity Transfers from (to) Other Funds	500
FUND BALANCES AT END OF YEAR	\$ 38,766 =====

The accompanying notes are an integral part of the financial statements.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum only)	
Special Revenue	Debt Service	Capital Projects	Expendable Trust	1993	1992
\$ 19,612	\$ 19,968	\$ 4,542	\$ 0	\$ 165,436	\$ 172,029
66,458	0	8,585	0	219,366	208,374
3,098	0	1,501	0	24,508	24,129
2,280	0	0	0	16,231	16,618
39,539	2,512	10,190	1,192	77,427	85,492
78,468	0	3,934	0	82,679	83,987
9,999	0	4,946	0	56,352	50,466
7,164	0	10,368	1,017	18,549	26,523
8,869	0	0	8	61,505	61,632
5,895	1	2,049	0	10,102	8,938
-----	-----	-----	-----	-----	-----
241,382	22,481	46,115	2,217	732,155	738,188
-----	-----	-----	-----	-----	-----
7,900	939	2,966	508	83,515	80,978
10,454	0	0	0	241,802	237,181
1,380	0	0	26	16,683	17,166
45,350	0	18	1,194	86,810	94,566
14,430	0	12	0	71,817	73,203
7,449	0	-142	0	29,971	31,718
92,780	0	2	0	92,782	88,654
1,989	0	82	3	2,074	2,836
4,718	0	0	0	5,181	4,566
0	0	0	3	2,308	10,193
14,273	0	87,264	241	101,778	138,478
0	12,942	0	0	12,942	17,345
0	26,080	0	0	26,080	27,018
-----	-----	-----	-----	-----	-----
200,723	39,961	90,202	1,975	773,743	823,902
-----	-----	-----	-----	-----	-----
40,659	-17,480	-44,087	242	-41,588	-85,714
-----	-----	-----	-----	-----	-----
0	38,418	15,512	0	53,930	66,857
0	0	0	0	1,073	821
35,226	19,336	9,792	69	98,645	107,618
0	-41,364	0	0	-41,364	0
-480	0	0	0	-8,879	-167
-77,051	-198	-16,868	-3	-98,645	-107,618
0	-1182	-475	0	-1,657	-284
-----	-----	-----	-----	-----	-----
-42,305	15,010	7,961	66	3,103	67,227
-----	-----	-----	-----	-----	-----
-1,646	-2,470	-36,126	308	-38,485	-18,487
129,285	50,616	239,473	1,765	457,956	476,443
0	0	0	0	500	0
-----	-----	-----	-----	-----	-----
\$ 127,639	\$ 48,146	\$ 203,347	\$ 2,073	\$ 419,971	\$ 457,956
=====	=====	=====	=====	=====	=====

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED GOVERNMENTAL FUND TYPES Year Ended June 30, 1993 (In Thousands)

		General Fund	
		Actual on Budgetary Basis	Budget
REVENUES			
Property Taxes and Special Assessments	\$	121,314	\$ 134,252
Other Local Taxes		144,323	143,200
Licenses and Permits		19,909	22,827
Fines, Forfeitures and Penalties		13,951	15,239
Revenue from Use of Money and Property		23,423	25,095
Revenue from Federal Agencies		277	63
Revenue from Other Agencies		41,407	42,969
Revenue from Private Sources		0	0
Charges for Current Services		52,628	58,414
Other Revenue		2,157	4,286
Excess Revenue Appropriated		0	0
TOTAL REVENUES		419,389	446,345
EXPENDITURES			
Current:			
General Government		71,860	81,359
Public Safety		234,320	239,732
Libraries		15,596	17,015
Parks, Recreation and Culture		41,870	47,108
General Services		60,792	63,095
Engineering and Development		22,799	25,296
Housing and Community Development		0	0
Public Transportation		0	0
Employment and Social Service Programs		464	594
Miscellaneous and Unallocated		2,359	4,379
Capital Projects		0	0
Debt Service:			
Principal Retirement		0	0
Interest		0	0
TOTAL EXPENDITURES		450,060	478,578
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		-30,671	-32,233
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary/Fiduciary Funds		6,067	2,222
Transfers from Other Funds		34,222	34,306
Transfers to Proprietary Funds		-8,399	-8,399
Transfers to Other Funds		-4,525	-4,525
TOTAL OTHER FINANCING SOURCES (USES)		27,365	23,604
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES		-3,306	-8,629
Fund Balances Undesignated at July 1, 1992		2,517	2,517
Residual Equity Transfers from (to) Other Funds		500	500
Reserved for Encumbrances at July 1, 1992		6,101	6,101
Reserved for Debt Service at July 1, 1992		0	0
Reserved for Debt Service at June 30, 1993		0	0
Designated for Subsequent Years' Expenditures at July 1, 1992		3,422	3,422
Designated for Subsequent Years' Expenditures at June 30, 1993		-3,211	0
FUND BALANCES UNDESIGNATED AT JUNE 30, 1993	\$	6,023	\$ 3,911

The accompanying notes are an integral part of the financial statements.

THE CITY OF SAN DIEGO

ANNUAL FINANCIAL REPORT

Budgeted Special Revenue Funds		Budgeted Debt Service Funds		Budgeted Capital Projects Funds		Total (Memorandum Only)		Variance Favorable (Unfavorable)
Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	
\$ 7,486	\$ 7,927	\$ 3,056	\$ 3,056	\$ 0	\$ 0	\$ 131,856	\$ 145,235	\$ -13,379
66,302	69,256	0	0	915	915	211,540	213,371	-1,831
544	554	0	0	0	0	20,453	23,381	-2,928
0	0	0	0	0	0	13,951	15,239	-1,288
23,349	22,668	138	88	117	0	47,027	47,851	-824
0	0	0	0	2,220	665	2,497	728	1,769
6,132	6,782	0	0	4,716	5,955	52,255	55,706	-3,451
9	0	0	0	0	0	9	0	9
2,167	2,045	0	0	0	0	54,795	60,459	-5,664
641	662	0	0	1,781	556	4,579	5,504	-925
0	1,487	0	0	0	0	0	1,487	-1,487
106,630	111,381	3,194	3,144	9,749	8,091	538,962	568,961	-29,999
294	333	0	0	7	94	72,161	81,786	9,625
6,813	10,248	0	0	0	0	241,133	249,980	8,847
0	0	0	0	0	0	15,596	17,015	1,419
47,737	52,188	0	0	0	0	89,607	99,296	9,689
18,022	26,250	0	0	0	0	78,814	89,345	10,531
1,401	1,604	0	0	-254	161	23,946	27,061	3,115
4,230	4,646	0	0	0	0	4,230	4,646	416
8	57	0	0	0	0	8	57	49
0	0	0	0	0	0	464	594	130
0	203	0	0	0	0	2,359	4,582	2,223
3,063	14,577	0	0	25,404	38,304	28,467	52,881	24,414
0	0	1,675	1,675	0	0	1,675	1,675	0
0	0	2,379	2,887	0	0	2,379	2,887	508
81,568	110,106	4,054	4,562	25,157	38,559	560,839	631,805	70,966
25,062	1,275	-860	-1,418	-15,408	-30,468	-21,877	-62,844	40,967
0	0	0	0	0	0	6,067	2,222	3,845
13,307	18,123	1,169	1,069	864	950	49,562	54,448	-4,886
0	0	0	0	0	0	-8,399	-8,399	0
-49,088	-54,714	0	0	-5,442	-2,850	-59,055	-62,089	3,034
-35,781	-36,591	1,169	1,069	-4,578	-1,900	-11,825	-13,818	1,993
-10,719	-35,316	309	-349	-19,986	-32,368	-33,702	-76,662	42,960
15,179	15,179	0	0	6,817	6,817	24,513	24,513	0
0	0	0	0	0	0	500	500	0
18,618	18,618	0	0	8,942	8,942	33,661	33,661	0
0	0	2,420	2,420	0	0	2,420	2,420	0
0	0	-2,729	-2,071	0	0	-2,729	-2,071	-658
12,271	12,271	0	0	19,354	19,354	35,047	35,047	0
-13,584	-884	0	0	-10,925	0	-27,720	-884	-26,836
\$ 21,765	\$ 9,868	\$ 0	\$ 0	\$ 4,202	\$ 2,745	\$ 31,990	\$ 16,524	\$ 15,466

THE CITY OF SAN DIEGO

ANNUAL FINANCIAL REPORT

**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS/FUND BALANCES - ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
Year Ended June 30, 1993
With Comparative Figures for June 30, 1992
(In Thousands)**

	Proprietary Fund Types	
	Enterprise	Internal Service
OPERATING REVENUES		
Earnings on Investments	\$ 0	\$ 0
Sale of Water	115,525	0
Charges for Services	193,726	16,546
Contributions	0	25,841
Revenue from Use of Property	2,232	0
Usage Fees	38,879	18,811
Other	1,936	1,076
TOTAL OPERATING REVENUES	352,298	62,274
OPERATING EXPENSES		
Benefit and Claim Payments	0	29,031
Maintenance and Operations	152,194	17,084
Cost of Materials Issued	151	11,310
Cost of Water Purchased	52,178	0
Taxes	4,171	0
Administration	57,596	7,710
Depreciation and Amortization	22,501	5,862
Other	0	0
TOTAL OPERATING EXPENSES	288,791	70,997
OPERATING INCOME	63,507	-8,723
NONOPERATING REVENUES (EXPENSES)		
Earnings on Investments	22,958	231
Federal Grant Assistance	3,051	0
Other Agency Grant Assistance	-1,667	0
Bond Interest Payments	-1,281	0
Gain on Sale/Retirement of Fixed Assets	-2,211	126
Other	8,010	-4
TOTAL NONOPERATING REVENUES (EXPENSES)	28,860	353
INCOME BEFORE OPERATING TRANSFERS	92,367	-8,370
Operating Transfers In	500	1,512
Transfers from Governmental Funds	40	8,839
Operating Transfers Out	-500	-1,512
Transfers to Governmental Funds	0	-782
NET INCOME (LOSS)	92,407	-313
Retained Earnings/Fund Balances at Beginning of Year	656,805	-4,137
RETAINED EARNINGS/FUND BALANCES AT END OF YEAR	\$ 749,212	\$ -4,450
	=====	=====

The accompanying notes are an integral part of the financial statements.

THE CITY OF SAN DIEGO

ANNUAL FINANCIAL REPORT

Fiduciary Fund Types		Totals (Memorandum only)	
Pension Trust	Nonexpendable Trust	1993	1992
\$ 112,647	\$ 550	\$ 113,197	\$ 120,333
0	0	115,525	97,856
105	46	210,423	207,954
84,916	0	110,757	107,963
0	0	2,232	3,329
0	0	57,690	52,205
0	0	3,012	2,669
197,668	596	612,836	592,309
74,987	0	104,018	87,986
0	0	169,278	161,956
0	0	11,461	15,306
0	0	52,178	41,491
0	0	4,171	933
5,506	0	70,812	70,065
0	0	28,363	28,830
0	1	1	2
80,493	1	440,282	406,569
117,175	595	172,554	185,740
0	0	23,189	33,389
0	0	3,051	690
0	0	-1,667	970
0	0	-1,281	-1,537
0	0	-2,085	1,585
0	0	8,006	-3,998
0	0	29,213	31,099
117,175	595	201,767	216,839
0	0	2,012	706
0	0	8,879	167
0	0	-2,012	-706
0	-291	-1,073	-821
117,175	304	209,573	216,185
1,174,175	4,051	1,830,894	1,614,598
\$ 1,291,350	\$ 4,355	\$ 2,040,467	\$ 1,830,783
=====	=====	=====	=====

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

COMBINED STATEMENT OF CASH FLOWS INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND Year Ended June 30, 1993 With Comparative Figures for June 30, 1992 (In Thousands)

	Proprietary Fund Types	
	Enterprise	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 63,507	\$ -8,723
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Earnings on Investments Included		
in Operating Income	0	0
Reverse Repurchase Agreement Expense		
Included in Operating Income	0	0
Depreciation and Amortization	22,501	5,862
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables:		
Accounts and Special Assessments - Net	3,016	81
Claims - Net	0	45
Notes	61	0
Grants	-2,415	0
From Other Funds	500	0
(Increase) Decrease in Inventories	2,915	348
(Increase) Decrease in Prepaid and Reimbursable		
Items and Deposits	-235	-176
Increase (Decrease) in Accounts Payable	-5,379	1,471
Increase (Decrease) in Advances	0	-259
Increase (Decrease) in Accrued Wages and Benefits	732	20
Increase (Decrease) in Other Accrued Liabilities	95	0
Increase (Decrease) in Liability Claims	-59	-817
Increase (Decrease) in Due to Other Funds	-500	0
Increase (Decrease) in Deferred Revenue	13,285	32
Other Nonoperating Revenue	9,094	6
NET CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES	107,118	-2,110
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Transfers In	500	1,512
Transfers from Governmental Funds	40	8,839
Operating Transfers Out	-500	-1,512
Transfers to Governmental Funds	0	-782
Federal Grants Received	682	0
Operating Grants Received	984	0
Payments for Advances and Deposits	-1,426	-738
NET CASH PROVIDED BY (USED FOR)		
NONCAPITAL FINANCING ACTIVITIES	280	7,319

The accompanying notes are an integral part of the financial statements.

THE CITY OF SAN DIEGO

ANNUAL FINANCIAL REPORT

Fiduciary Fund Type	Total (Memorandum only)	
----- Nonexpendable Trust -----	1993	1992
-----	-----	-----
\$ 595	\$ 55,379	\$ 50,593
-550	-550	-462
1	1	1
0	28,363	28,830
-2	3,095	-10,767
0	45	14
0	61	43
0	-2,415	0
0	500	-1,239
0	3,263	585
0	-411	-128
0	-3,908	-6,369
0	-259	0
0	752	2,177
0	95	-240
0	-876	-1,435
0	-500	2,000
2	13,319	3,891
0	9,100	1,331
-----	-----	-----
46	105,054	68,825
-----	-----	-----
0	2,012	706
0	8,879	167
0	-2,012	-706
-291	-1,073	-821
0	682	0
0	984	1,665
0	-2,164	-2,150
-----	-----	-----
-291	7,308	-1,139
-----	-----	-----

Continued on next page

THE CITY OF SAN DIEGO

ANNUAL FINANCIAL REPORT

COMBINED STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
Year Ended June 30, 1993
With Comparative Figures for June 30, 1992
(In Thousands)

	Proprietary Fund Types	
	Enterprise	Internal Service
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Issuance of Long-Term Debt	\$ 1,700	\$ 0
Proceeds from Contributed Capital	35,440	0
Acquisition of Fixed Assets	-161,934	-2,895
Proceeds from the Sale of Fixed Assets	-4,502	296
Principal Payment on Capital Lease	-84	0
Principal Paid on Long-Term Debt	-5,009	0
Interest Paid on Long-Term Debt	-1,335	0
NET CASH PROVIDED BY (USED FOR)		
CAPITAL AND RELATED FINANCING ACTIVITIES	-135,724	-2,599
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Change of Investments/Obligations Under		
Reverse Repurchase Agreements	-7,804	-128
Purchase of Investments	0	-103
(Increase) Decrease in Accrued Interest Receivable	0	-4
Interest and Dividends Received on Investments	23,181	231
Reverse Repurchase Agreement Interest Paid	-1,084	-10
NET CASH PROVIDED BY (USED FOR)		
INVESTING ACTIVITIES	14,293	-14
Net Increase (Decrease) in Cash and Cash Equivalents	-14,033	2,596
Cash and Cash Equivalents at Beginning of Year	449,441	42,907
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 435,408	\$ 45,503
	=====	=====

The accompanying notes are an integral part of the financial statements.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

Fiduciary Fund Type ----- Nonexpendable Trust -----	Totals (Memorandum only) -----	
	1993 -----	1992 -----
\$ 0	\$ 1,700	\$ 2,097
0	35,440	32,744
0	-164,829	-138,272
0	-4,206	2,170
0	-84	0
0	-5,009	-6,034
0	-1,335	-1,616
-----	-----	-----
0	-138,323	-108,911
-----	-----	-----
20	-7,912	-14,400
-128	-231	0
0	-4	0
550	23,962	34,911
-1	-1,095	-1,766
-----	-----	-----
441	14,720	18,745
-----	-----	-----
196	-11,241	-22,480
560	492,908	515,388
-----	-----	-----
\$ 756	\$ 481,667	\$ 492,908
=====	=====	=====

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1993

1. SUMMARY OF SIGNIFICANT POLICIES

The City of San Diego (the "City") adopted its charter on April 7, 1931 and operates as a municipality in accordance with State laws. The City is governed by an elected nine member City Council, including the Mayor. Residents of the City are provided with a wide range of services including parks, recreation, police, fire, water and sewer services.

The accounting policies of the City conform to generally accepted accounting principles ("GAAP") as applicable to governmental units. The following is a summary of the more significant of such policies:

A. Scope of Financial Reporting Entity

The City has defined its reporting entity in accordance with criteria prescribed by the Governmental Accounting Standards Board ("GASB"), which provide guidance for determining which governmental activities, organizations and functions should be included in the City's reporting entity.

The criteria for inclusion in the Comprehensive Annual Financial Report ("CAFR") of such information is generally based on the ability of the City to exercise oversight responsibility over such activities, organizations and functions. Such oversight responsibility is considered to mean the existence of financial interdependency and the ability to appoint governing boards, to designate management, the ability to significantly influence operations, to approve annual operating budgets or to control day to day operations. In analyzing the City's broad scope of operations, City management has determined that the City exercises such oversight responsibility over the following other entities:

- . Automated Regional Justice Information System (a joint-powers agency)
- . Centre City Development Corporation
- . City of San Diego Metropolitan Transit Development Board Authority (a joint-powers agency)
- . Mid-City Development Corporation
- . Redevelopment Agency of the City of San Diego
- . San Diego Convention Center Corporation, Inc.
- . San Diego Data Processing Corporation
- . San Diego Festivals, Inc.
- . San Diego Housing Authority
- . San Diego Industrial Development Authority
- . San Diego Open Space Park Facilities District #1

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

1. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

- . San Diego Facilities and Equipment Leasing Corporation
- . San Diego Planetarium Authority (a joint-powers agency)
- . San Diego Stadium Authority (a joint-powers agency)
- . Southeast Economic Development Corporation
- . San Ysidro Revitalization Project

B. Basis of Presentation

The accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/retained earnings, revenues and expenditures/expenses. The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the City:

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in Proprietary Fund Types) are accounted for through Governmental Fund Types. The measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination. The following are the City's Governmental Fund Types:

- . General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.
- . Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than those for expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes.
- . Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.
- . Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Fund Types and certain trust funds).

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

1. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

PROPRIETARY FUND TYPES

Proprietary Fund Types are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and changes in financial position. The following are the City's Proprietary Fund Types:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

- . Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

FIDUCIARY FUND TYPES

Fiduciary Fund Types are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds:

- . Trust and Agency Funds - Trust and Agency Funds include Expendable, Nonexpendable, Pension Trust and Agency Funds. Nonexpendable and Pension Trust Funds are accounted for and reported in the same manner as Proprietary Fund Types since capital maintenance is critical. Expendable Trust and Agency Funds are accounted for and reported similar to Governmental Fund Types.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

1. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

ACCOUNT GROUPS

Account Groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

- General Fixed Assets Account Group - This account group is established to account for all fixed assets of the City, other than those accounted for in the Proprietary Fund Types.
- General Long-Term Debt Account Group - This account group is established to account for all long-term debt of the City, except for that accounted for in the Proprietary Fund Types.

C. Basis of Accounting

Governmental Fund Types, Expendable Trust and Agency Funds

The modified accrual basis of accounting is followed in the Governmental Fund Types, Expendable Trust and Agency Funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues which are considered susceptible to accrual include real and personal property taxes, interest and state and federal grants and subventures. In applying the susceptible to accrual concept to state and federal revenues, the legal and contractual requirements of the numerous individual programs are used as guidance.

Other local taxes, licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

Expenditures are recognized when the related fund liability is incurred except for (1) principal and interest of general long-term debt which are recognized when due; and (2) employee annual leave and claims and judgments from litigation and self-insurance which are recorded in the period due and payable since such amounts will not currently be liquidated with expendable available financial resources.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

1. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Proprietary Fund Types, Pension Trust and Nonexpendable Trust Funds

The accrual basis of accounting is used in all Proprietary Fund Types, Pension Trust and Nonexpendable Trust Funds. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Estimated unbilled revenues from the Water and Sewerage Utility (Enterprise) Funds are recognized at the end of each fiscal year. This estimated amount is based on billings during the month following the close of the fiscal year.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D. Property Taxes

The County of San Diego (the "County") bills and collects property taxes on behalf of numerous special districts and incorporated cities, including the City. The City's collection of current year's taxes are received through periodic apportionments from the County.

The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on March 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

Since the passage of California's Proposition 13, beginning with fiscal year 1978-79 general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of any property sold or of the cost of any new construction after the 1975-76 valuation. Taxable values on properties (exclusive of increases related to sales and new construction) can rise at a maximum of 2% per year.

This Proposition 13 limitation on general property taxes does not apply to taxes levied to pay the debt service on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13).

Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 60 days of the end of the fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are not recorded as revenue until collected.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

1. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

D. Property Taxes (Continued)

The City provides an allowance for uncollected property taxes of 3% of the outstanding balance which is reflective of historical collections.

E. Budgetary Data

General Budget Policies

On or before the first meeting in May of each year the City Manager submits to the City Council a proposed operating and capital improvements budget for the fiscal year commencing July 1. Such budget includes annual budgets for the following funds:

General Fund

Special Revenue Funds:

- Automated Regional Justice Information System
- Centre City Development Corporation
- Mid-City Development Corporation
- San Diego Convention Center Corporation
- San Diego Festivals Inc.
- Southeast Economic Development Corporation

City of San Diego Oversight Unit:

- Acquisition, Improvement and Operation

Environmental Growth Funds:

- Two-Thirds Requirement
- One-Third Requirement
- Police Decentralization
- Public Transportation
- San Diego Jack Murphy Stadium Acquisition
- San Diego Jack Murphy Stadium Operations
- Special Gas Tax Street Improvement
- Transient Occupancy Tax
- Zoological Exhibits

Debt Service Funds:

City of San Diego Oversight Unit:

General Obligation Bond Funds:

- Pre-Arrestment Detention Facility
- Public Safety Communications Project Bonds
- Other General Obligation Bonds

Capital Projects Funds:

City of San Diego Oversight Unit:

- Capital Outlay

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

1. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Public hearings are then conducted to obtain citizen comments on the proposed budget. During the month of July the budget is legally adopted through passage of an appropriation ordinance by the City Council.

The City budget is prepared on the modified accrual basis of accounting except that (1) encumbrances outstanding at year-end are considered as expenditures and (2) the increase/decrease in reserve for advances and deposits to other funds and agencies are considered as additions/deductions of expenditures. Budgets for entities over which the City exercises oversight responsibility (component units) are prepared on the modified accrual basis of accounting plus the recognition of encumbrances outstanding at year-end as expenditures.

The City budget is prepared net of obligations under reverse repurchase agreement interest expense. For budgetary purposes, obligations under reverse repurchase agreement interest expense is considered a reduction of interest earnings.

Budgetary control for the City's General Fund is exercised at the payroll and other expenditures level. Budgetary control for the other budgeted funds, including those of certain component units, is maintained at the total fund appropriation level. All amendments to the adopted budget require City Council approval. However, the Auditor and Comptroller, as directed by the Financial Management Department, is authorized during the year to transfer amounts not exceeding \$25,000 between departments within the General Fund.

Reported budget figures are as originally adopted or subsequently amended by the City Council plus prior year continuing appropriations. Such budget amendments during the year, including those related to supplemental appropriations, did not cause these reported budget amounts to be significantly different than the originally adopted budget amounts. Appropriations lapse at year-end to the extent that they have not been expended or encumbered.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

1. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

The following is a reconciliation of the excess (deficiency) of revenues over expenditures prepared on the GAAP basis to that prepared on the budgetary basis (in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses - GAAP Basis	\$ 1,449	\$ (1,646)	\$ (2,470)	\$ (36,126)
Add (Deduct) - (Excess) Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses - GAAP Basis for Non-Budgeted Funds	0	393	2,779	23,037
Budgeted Funds: Deduct:				
Encumbrances Outstanding, June 30, 1993	(7,313)	(9,056)	0	(6,897)
Reserved for Advances and Deposits, June 30, 1993	(22,219)	(1,203)	0	0
Add - Reserved for Advances and Deposits, June 30, 1992	<u>24,777</u>	<u>793</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses - Budgetary Basis	<u>\$ (3,306)</u>	<u>\$ (10,719)</u>	<u>\$ 309</u>	<u>\$ (19,986)</u>

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

1. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the budgeted Governmental Fund Types.

Encumbrances outstanding at year-end are reported as reservations of fund balances since the commitments will be honored through subsequent years' continuing appropriations. Encumbrances do not constitute expenditures or liabilities for GAAP reporting purposes.

G. Investments

Investments are stated at cost or amortized cost which approximates market. Gains or losses on investments are recognized upon sale of the investments. Investments in the Deferred Compensation Plan Agency Fund are recorded at market value. See Note 8 for more information on the Deferred Compensation Plan.

H. Inventories

Inventories, which consist of both water in storage and operating supplies, are valued at the lower of cost or market. Such inventories are expensed when consumed.

I. Restricted Assets

Proceeds from debt issuances, funds set aside for payment of Enterprise Fund revenue bonds and San Diego Housing Authority deposits servicing low interest construction and rehabilitation loans made by various banks are classified as restricted assets since their use is limited by applicable bond indentures.

J. Fixed Assets

General Fixed Assets:

General fixed assets are those acquired for general governmental purposes. Assets purchased are recorded as expenditures in the Governmental Fund Types and capitalized at cost in the General Fixed Assets Account Group. Donated fixed assets are recorded in general fixed assets at estimated fair market value at the time received. Certain assets for which actual costs are not practically determined have been valued on the basis of a professional valuation which determined their estimated historical cost.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

1. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Fixed assets comprising the infrastructure of the City, including roads, bridges, pools, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, have not been capitalized. Such infrastructure assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship and cumulative accountability for capital expenditures is satisfied without recording these assets.

No depreciation has been provided on general fixed assets.

Proprietary Fund Type Fixed Assets:

Fixed assets owned by the Proprietary Fund Types are stated at cost if purchased or constructed, or at estimated fair market value if received as a donation. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Structures and improvements	30-40 years
Plants, dams, canals, laterals and equipment	5-150 years

K. Short-term Debt

The City has issued tax anticipation notes every year since fiscal year 1967 - 68 (except for fiscal year 1978 - 79) to meet its cash flow requirements. On July 1, 1992 and December 10, 1992, the City sold tax anticipation notes in the aggregate principal amount of \$67,500,000 and \$34,500,000, respectively. The notes were due and fully redeemed on June 30, 1993 and November 1, 1993 respectively, by monies that were fully segregated in a separate repayment fund. Both series of notes were secured by a pledge of the City's share of property taxes and other unrestricted monies received and attributable to the 1992 - 93 fiscal year. Monies for full redemption of these notes were fully segregated in a separate repayment fund at June 30, 1993 and subsequently used to redeem the notes on November 1, 1993. The liability for these notes is shown in the General Fund.

The City has never defaulted on the payment of the principal and interest on any of its short-term obligations. See Note 20 for additional Tax Anticipation Note information.

L. Interagency Current Receivables, Payables and Long-Term Debt

For reporting purposes, the City considers interagency long-term loans to be operating transfers. Accordingly, "loans receivable" are classified as "transfers out" while "loans payable" are classified as "transfers in". Interest on loans are recorded only when due. Loan amounts, including interest, are noted in the footnotes to this report. When loans are repaid, such transactions are also recorded as "transfers out" (typically from the Debt Service Fund) and "transfers in," and the loan balance is reduced in the footnotes. Interagency current receivables and payables are classified as accounts "receivable from" and "due to" other funds (See Note 6).

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

1. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

M. Long-term Liabilities

Long-term liabilities expected to be financed in future years from Governmental Fund Types are accounted for in the General Long-Term Debt Account Group. Long-term liabilities of all Proprietary Fund Types are accounted for in their respective funds.

N. Employee Annual Leave

The City provides combined annual leave to cover both vacation and sick leave. It is the City's policy to permit employees in the Fire Department to accumulate up to 21 weeks of earned but unused annual leave, employees eligible for the Management Benefits Plan to accumulate up to 17.5 weeks of earned but unused annual leave and all other employees to accumulate up to 15 weeks of earned but unused annual leave. Accumulation of these earnings will be paid to employees upon separation from service. Excess accumulated annual leave amounts not used by employees are forfeited on an annual basis.

In addition, sick leave earned through August 1981 by employees hired prior to July 1, 1975 is payable upon separation under the following conditions: (1) 50% of the employee's accrued amount upon retirement or death, or (2) 25% of the employee's accrued amount upon resignation.

In Governmental Fund Types and Expendable Trust Funds, the costs for annual leave are anticipated to be long-term in nature and, accordingly, the liability for accumulated unpaid benefits are recorded in the General Long-Term Debt Account Group which recognizes the City's obligation to fund such costs from future operations. Expenditures of the current year represent payments made to employees. In Proprietary Fund Types, annual leave benefits are recorded as a liability in the period earned.

O. Claims and Judgments

In Governmental Fund Types, the costs of claims and judgments are recorded as expenditures when payments are made. The liability for anticipated future claims is recorded in the General Long-Term Debt Account Group in recognition of the City's obligation to fund such costs from future operations. In Proprietary Fund Types, the costs of claims and judgments are recorded when the liability is incurred and measurable.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

1. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

P. Fund Equity

Portions of fund equity have been reserved for specific purposes. Reservations were created to either (1) satisfy legal covenants that require a portion of the fund balance to be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures.

Designated fund balance indicates that portion of fund equity for which the City has made tentative plans.

Undesignated fund balance indicates that portion of fund equity which is available for appropriation in future periods.

Q. Statement of Cash Flows

All of the related City's restricted and unrestricted "Cash or Equity in Pooled Cash and Investments" and "Cash with Custodian/Fiscal Agent" are classified as cash and cash equivalents, since they are readily convertible to known amounts of cash or so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates.

R. Total Columns on Combined Statements

Amounts in the "Total - Memorandum Only" column in the combined financial statements are presented to aggregate financial data. The total includes fund types and account groups that use different bases of accounting and the captions "Amount Available for Payment of General Long-Term Debt" and "Amount to be Provided for Retirement of Long-Term Debt" which are not assets in the usual sense. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

S. Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

2. CASH AND INVESTMENTS

As provided for by the Government Code, the cash balance of substantially all funds are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The respective funds' shares of the total pooled cash and investments are included in the accompanying combined balance sheet under the caption "Cash or Equity in Pooled Cash and Investments." Interest earned on pooled investments is deposited to certain of the participating funds based upon each fund's average daily deposit balance during the allocation period with all remaining interest deposited to the General Fund.

"Cash With Custodian/Fiscal Agent" represents funds held by bank trustees on behalf of the City and its component units. For several component units, the purpose of these accounts is to invest cash related to certain outstanding long-term debts and to distribute principal and interest payments to debtholders. For other component units and the City, the purpose of these accounts is solely to distribute principal and interest payments to debtholders.

"Investments at Cost" in the combined balance sheet represent Pension Trust Fund investments, deferred compensation investments, and various special revenue, debt service, capital projects and miscellaneous trust fund investments.

Aggregate cash or equity in pooled cash and investments, cash with custodian/fiscal agent, and investments at cost are as follows at June 30, 1993 (in thousands):

	<u>Total</u>
Cash or Equity in Pooled Cash and Investments	\$1,120,944
Cash with Custodian/ Fiscal Agent	5,480
Investments at Cost	1,217,894
Restricted Assets	<u>11,805</u>
Total	<u>\$2,356,123</u>

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

2. CASH AND INVESTMENTS (CONTINUED)

Deposits

At June 30, 1993, the carrying amount of the City's cash or equity in pooled cash deposits (cash, non-negotiable certificates of deposit and money market funds) was approximately \$21,183,979 and the balance per various financial institutions was approximately \$47,597,691. Of the balance in financial institutions, approximately \$1,483,797 was covered by federal depository insurance and approximately \$46,113,894 was uninsured. Such uninsured deposits are with financial institutions which are individually legally required to have government deposits collateralized with government securities held by the pledging financial institution's trust departments in the government's name. The market value of such pledged securities must equal at least 110% of the government's deposits.

At June 30, 1993, "Cash with Custodian/Fiscal Agent" (approximately \$5,480,000) was held by the trust departments of various banks and was not covered by federal depository insurance or collateralized by securities owned by the bank.

Investments

In accordance with the charter of the City of San Diego and under authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the City treasury. This investment policy applies to all of the investment activities of the City, except for the Pension Trust Funds (for which policies are noted below), the proceeds of certain debt issues which are managed and invested by trustees appointed under indenture agreements and the assets of trust funds which are placed in the custody of the Funds Commission by Council ordinance. All financial assets of all other funds are administered in accordance with the provisions noted here.

The City may transact business only with banks, savings and loans, and investment securities dealers who are primary dealers regularly reporting to the New York Federal Reserve Bank. Exceptions to this rule can be made only upon written authorization of the City Treasurer. Authorized cash deposits and investments are governed by state law, as well as by the City's own written investment policy. Within the context of these limitations, permissible investments include (1) obligations of the U.S. government and federal agencies, (2) commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, (3) bankers' acceptances, (4) negotiable and/or non-negotiable certificates of deposit and non-negotiable time deposits issued by a nationally or state chartered bank or a state or federal savings and loan association, (5) repurchase and reverse repurchase agreements, (6) the local agency investment fund established by the state treasurer, (7) financial futures contracts in any of the other authorized investments which are used to offset an existing financial position and not for outright speculation, (8) mortgage securities purchased under an agreement to resell, (9) medium-term corporate notes of a maximum of five years maturity issued by corporations operating within the United States and (10) shares of beneficial interest issued by diversified management companies, as defined in Section 23701m of the Revenue and Taxation Code.

2. CASH AND INVESTMENTS (CONTINUED)

All non-negotiable time certificates of deposit are to be fully collateralized with mortgages or eligible securities in accordance with state law.

Investments for the Pension Trust Fund are authorized to be made by the Board of Administration of the City Employees' Retirement System in accordance with the charter of the City. The Board is authorized to invest in any bonds or securities which are allowed by general law for savings banks. The Board has further restricted the authorized investments to those believed by independent investment counsel to be appropriate for investment by trust funds operating under the "prudent man" rule as set forth in state law. These investments include, but are not limited to, bonds, notes or other obligations, real estate investments, common stocks, preferred stocks and pooled vehicles. Investments can also be made in financial futures contracts in any of the other authorized investments which are used to offset an existing financial position and not for outright speculation.

Investment policies permit the Pension Trust Fund to invest in financial futures contracts. Financial futures contracts, which are recorded at market value, are not hedges of existing assets, and changes in the market value of the contract result in recognition of a gain or loss.

Reverse Repurchase Agreements

Investment policies permit the City to enter into reverse repurchase agreements which is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received providing the dealers a margin against a decline in the market value of the securities. If the dealers default on their obligations to resell these securities to the City or provide securities of cash or equal value, the City could suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the reverse repurchase agreement obligation, including accrued interest payable. There was no such credit exposure at year-end. Interest expense was incurred under reverse repurchase agreements in the amount of \$2,495,686 for the year ended June 30, 1993.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

2. CASH AND INVESTMENTS (CONTINUED)

The City's investments at June 30, 1993, that can be specifically identified as to credit risk are categorized as described below (in thousands):

- Category 1: Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

Investments that are not subject to credit risk categorization, but that require carrying amount and market value disclosure are also presented below (in thousands).

	Category			Carrying	Market
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
U.S. government securities	\$1,080,201	\$ 36,710	\$ 0	\$1,116,911	\$1,134,207
Bankers' acceptances	23,866	0	0	23,866	23,866
Negotiable certificates of deposits	30,000	0	0	30,000	30,000
Commercial paper	26,769	0	0	26,769	26,677
Corporate notes/bonds	494,950	6,467	0	501,417	510,241
Common stock	322,110	0	0	322,110	412,331
Mortgage notes	14,315	0	0	14,315	14,997
Repurchase agreements	<u>5,403</u>	<u>0</u>	<u>0</u>	<u>5,403</u>	<u>5,403</u>
	<u>\$1,997,614</u>	<u>\$ 43,177</u>	<u>\$ 0</u>	2,040,791	2,157,722
Investment with California Local Agency Investment Fund				21,685	21,685
Investment held by brokers- dealers under reverse repurchase agreements:					
U.S. government securities				106,992	106,992
Mutual funds				69,994	69,994
Real estate/mineral interest funds				46,613	43,593
Real estate				2,224	2,224
Deferred compensation				<u>41,161</u>	<u>41,161</u>
Total investments				<u>\$2,329,460</u>	<u>\$2,443,371</u>

Investments are stated at cost or amortized cost, except for investments in the Deferred Compensation Plan Agency Fund which are reported at market value.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

2. CASH AND INVESTMENTS (CONTINUED)

Summary of Deposits and Investments

Following is a summary of the carrying amount of deposits and investments at June 30, 1993 (in thousands):

Deposits	\$ 21,183
Cash with custodian/ fiscal agent	5,480
Investments	<u>2,329,460</u>
Total	<u>\$2,356,123</u>

3. FIXED ASSETS

General Fixed Assets

A summary of changes in general fixed assets for the year ended June 30, 1993 is as follows (in thousands):

	<u>Balance July 1, 1992</u>	<u>Additions</u>	<u>Adjustments And Transfers</u>	<u>Deletions</u>	<u>Balance June 30, 1993</u>
Land	\$ 254,953	\$ 13,140	\$ 321	\$ (407)	\$ 268,007
Structures and improvements	312,962	38,578	178	(5,875)	345,843
Equipment	<u>113,272</u>	<u>19,543</u>	<u>(2,985)</u>	<u>(3,906)</u>	<u>125,924</u>
Subtotal	681,187	71,261	(2,486)	(10,188)	739,774
Construction in progress	<u>86,723</u>	<u>21,150</u>	<u>(25,235)</u>	<u>(3,511)</u>	<u>79,127</u>
Total	<u>\$ 767,910</u>	<u>\$92,411</u>	<u>\$ (27,721)</u>	<u>\$ (13,699)</u>	<u>\$ 818,901</u>

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

3. FIXED ASSETS (CONTINUED)

Proprietary Fund Type Fixed Assets

A summary of Proprietary Fund Type Fixed Assets at June 30, 1993 is as follows (in thousands):

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
Land	\$ 4,555	\$ 0
Structures and improvements	19,171	0
Plants, dams, canals, laterals and equipment	926,447	61,135
Other	41,145	
Construction in progress	<u>612,198</u>	<u>992</u>
	1,603,516	62,127
Less - Accumulated depreciation	<u>(283,814)</u>	<u>(36,359)</u>
Total, net	<u>\$ 1,319,702</u>	<u>\$ 25,768</u>

Construction In Progress

A summary of construction in progress (CIP) at June 30, 1993 is as follows (in thousands):

General Fixed Asset Account Group:

City	\$ 31,840
Housing Authority	<u>47,287</u>
Total General Fixed Asset Account Group	<u>79,127</u>

Enterprise Funds:

Airports	1,013
Golf Course	2,972
Sewerage Utility	488,301
Waste Disposal	9,497
Water Utility	<u>110,415</u>
Total Enterprise Funds	<u>612,198</u>

Internal Service Funds:

Central Garage and Machine Shop	<u>992</u>
---------------------------------	------------

Total Construction in Progress	<u>\$ 692,317</u>
--------------------------------	-------------------

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

3. FIXED ASSETS (CONTINUED)

The Sewerage Utility Fund and Water Utility Fund CIP of \$488,301 and \$110,415, respectively, represent 86.5 percent of total CIP for the year ended June 30, 1993.

The Sewerage Utility's construction plans for various projects are estimated to cost approximately \$151,717,000. As of June 30, 1993, the Sewerage Utility's contractual commitments for the projects totalled approximately \$120,822,000. It is intended that the contractual commitments be financed with approved State and Federal grants and service charges.

The Water Utility's construction plans for various projects are estimated to cost approximately \$62,868,000. As of June 30, 1993, the Water Utility's contractual commitments for the projects totalled approximately \$22,957,000. It is intended that the contractual commitments be financed with reserves and service charges.

Construction commitments are authorized by City Council and have various completion dates. It is not anticipated that additional future financing will be required for projects currently in progress.

4. GENERAL LONG-TERM DEBT

General long-term debt consists of general obligation bonds, special assessment bonds, tax allocation bonds, contracts payable, notes payable, capital lease obligations, liability claims (also see Note 15 for more information contingencies) and accrued annual leave. A summary of these obligations as recorded in the General Long-Term Debt Account Group as of June 30, 1993 is as follows (in thousands):

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1993</u>
<u>General Obligation Bonds:</u>				
San Diego Stadium Authority Revenue Bonds issued April 1966	3.8-4.0%	2001	\$ 27,000	\$ 11,040
San Diego Stadium Authority Revenue Bonds, Series 1983 issued September 1983	8.0-11.0	2003	9,155	6,955
Municipal Improvement Bonds of 1966, Series 3, issued December 1968	5.0-5.1	1994	5,000	390
Municipal Improvement Bonds of 1968, issued December 1968	4.9-5.1	1994	3,500	290

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

4. GENERAL LONG-TERM DEBT (CONTINUED)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1993</u>
<u>General Obligation Bonds (Cont'd):</u>				
San Diego Planetarium Revenue Bonds, issued April 1971	5.0-7.0	1996	3,000	860
Open Space Park Bonds of 1978, Series 79A, issued April 1979	6.0-8.0	2009	15,000	15,000
Open Space Park Bonds of 1978, Series 82A, issued November 1982	12.0	1994	15,000	395
Open Space Park Bonds of 1978, Series 86A, issued June 1986	7.4-7.6	2007	20,000	20,000
Open Space Park Refunding Bonds of 1986, issued June 1986	6.0-7.5	2005	32,790	31,490
Metropolitan Transit Development Board Authority Certificates of Participation of 1988, issued May 1988	5.6-7.3	2006	63,330	46,735
Metropolitan Transit Development Board Authority Lease Revenue Bonds of 1989, issued June 1989	6.4-6.9	2009	31,240	28,460
Municipal Improvement Bonds of 1991, issued March 1991	5.0-8.0	2012	25,500	25,360
San Diego Facilities Equipment Leasing Certificates of Participation of 1991, issued July 15, 1991	5.0-6.95	2021	11,810	11,680
Certificates of Participation of 1991, issued August 1991	8.0	2002	<u>8,500</u>	<u>7,700</u>
Total General Obligation Bonds			<u>\$ 270,825</u>	<u>\$ 206,355</u>

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

4. GENERAL LONG-TERM DEBT (CONTINUED)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1993</u>
<u>Special Assessment Bonds:</u>				
1915 Act Otay Mesa Road Improvement Bonds, issued June 1966	8.2	1999	1,148	455
1915 Act Via De La Valle Improvement Bonds, issued October 1986	6.0-6.8	2003	2,115	1,660
1915 Act Rio Vista Center Assessment District 1987 Reassessment and Refunding Bonds, issued April 1987	6.5-7.7	1998	1,105	370
1915 Act Alta Vista Annexation Sewer & Water Maintenance 1987 Reassessment & Refunding Bonds, issued April 1987	6.0-7.8	1999	220	145
1915 Act Lopez Canyon Sewer & Retention Basin 1987 Reassessment & Refunding Bonds, issued April 1987	6.5-7.9	2000	1,750	1,070
1915 Act Mira Mesa Blvd. Assessment District 1987 Reassessment & Refunding Bonds, issued April 1987	6.5-7.7	1998	1,910	1,010
1915 Act Sunset Cliffs Stabilization 1987 Reassessment & Refunding Bonds, issued April 1987	6.5-7.7	1998	560	345
1915 Act First San Diego River Improvement Project Bonds, issued July 1987	6.5-7.8	2008	24,082	20,835
1915 Act Otay International Center Improvement Bonds, issued September 1988	6.0-8.0	2014	6,995	5,955
1915 Act De La Fuente Business Park Improvement Bonds, issued April 1989	7.0-7.7	2014	4,897	4,575
1915 Act Sorrento Valley Road Improvement Bonds, issued June 1989	6.0-7.0	2010	1,632	1,480

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

4. GENERAL LONG-TERM DEBT (CONTINUED)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1993</u>
<u>Special Assessment Bonds (Cont'd):</u>				
1915 Act Calle Cristobal Improvement Bonds, issued July 1989	6.8-7.0	2015	19,195	18,020
1915 Act Otay International Center-Phase II Improvement Bonds, issued Sept. 1989	6.0-7.4	2015	12,212	11,520
1915 Act International Business Center Project, issued September 1990	6.1-7.4	2016	4,172	4,000
1915 Act Mission Valley Heights, issued September 1990	6.5-7.9	2016	8,570	8,355
1915 Act Otay Mesa Industrial Park, issued May 1992	5.5-7.95	2013	2,235	2,235
Special Tax Bonds, 1991 Series A, Miramar Ranch North, issued July 1991	6.0-8.5	2017	35,340	35,340
1915 Act De La Fuente Business Park Phase II, issued July 1992	4.0-7.1	2018	5,987	5,987
1915 Act Black Mountain Improvement Bonds, issued December 1992	6.2-7.0	2018	<u>5,500</u>	<u>5,500</u>
Total Special Assessment Bonds			<u>\$ 139,625</u>	<u>128,857</u>

4. GENERAL LONG-TERM DEBT (CONTINUED)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1993</u>
<u>Tax Allocation Bonds</u>				
Horton Plaza Project Tax Allocation Bonds, Series 1977, issued November 1977	5.8-6.7	2002	11,000	3,625
Horton Plaza Project Tax Allocation Refunding Bonds Series 1988, issued July 1988	5.8-8.1	2009	11,635	10,395
Centre City Redevelopment Project Tax Allocation Refunding Bonds Series 1992, Issued October 1992	3.0-6.0	2008	<u>36,935</u>	<u>36,935</u>
Total Tax Allocation Bonds			<u>\$ 59,570</u>	<u>50,955</u>
Total Bonds Payable				<u>386,167</u>
<u>Contracts Payable:</u>				
Contract Payable to City of National City, dated March 1987	7.5	2002	3,256	4,372
Contract Payable to City of National City, dated March 1987	7.5	2002	2,171	1,564
Contract Payable to County of San Diego, dated June 1987	11.0	2013	423	104
Contract Payable to DP Partnership, dated May 1988	11.0	2024	389	402
Contract Payable to Metropolitan Transit Development Board Authority, dated December 1988	11.0	1994	<u>1,459</u>	<u>270</u>
Total Contracts Payable			<u>\$ 7,698</u>	<u>6,712</u>

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

4. GENERAL LONG-TERM DEBT (CONTINUED)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1993</u>
<u>Notes Payable:</u>				
Notes payable to HUD, Various Dates	Various	Various	48,351	49,821
Note payable to HCD, dated July 1981	0.0	2013	1,405	1,405
Note payable to HCD, dated April 1983	0.0	2015	3,149	3,149
Mortgage note payable to Bank of America, dated February 1985	10.2	2025	3,656	3,570
Note payable to San Diego Association of Governments, dated July 1991	8.57	1997	8,000	8,000
Note payable to San Diego Association of Governments, dated July 1991	5.3-6.9	2008	6,525	6,300
Note payable to the 1st Nationwide, assumed December 1992	Variable	2011	195	177
Notes payable to HCD, dated November 1986	3.0	Various	155	155
Notes payable to HCD, dated March 1981	3.0	Various	20	20
Notes payable to HCD, dated October 1980	3.0	Various	30	30
Notes payable to HCD, dated May 1980	3.0	Various	6	6
Note payable to GMAC, dated May 1988	8.5	Various	11	9
Notes payable to the Redevelopment Agency, Various Dates	0.0	2022	<u>209</u>	<u>537</u>
Total Notes Payable			<u>\$ 71,712</u>	<u>73,179</u>

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

4. GENERAL LONG-TERM DEBT (CONTINUED)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1993</u>
Capital Lease Obligations For Various Office Equipments, Various Dates	Various	Various	66	37
Liability Claims				21,500
Accrued Annual Leave				<u>36,337</u>
Total General Long-Term Debt				<u>\$ 523,932</u>

The following is a summary of changes in general long-term debt for the year ended June 30, 1993 (in thousands):

	<u>Balance July 1, 1992</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 1993</u>
General obligation bonds	\$ 214,515	\$ 0	\$ (8,160)	\$ 206,355
Special assessment bonds	120,870	11,487	(3,500)	128,857
Tax allocation bonds	50,215	36,935	(36,195)	50,955
Contracts payable	7,260	555	(1,103)	6,712
Notes payable	67,166	7,146	(1,133)	73,179
Capital lease obligations	77	0	(40)	37
Liability claims	35,009	0	(13,509)	21,500
Accrued annual leave	<u>32,069</u>	<u>4,649</u>	<u>(381)</u>	<u>36,337</u>
Total	<u>\$ 527,181</u>	<u>\$ 60,772</u>	<u>\$ (64,021)</u>	<u>\$ 523,932</u>

4. GENERAL LONG-TERM DEBT (CONTINUED)

The City is obligated to levy and collect taxes for payment of principal and interest on the general obligation bonds. Certain bonds may be called at specified premiums.

The special assessment bonds were issued by the City to provide funds to make certain improvements in special assessment districts created by the City. The obligations are payable from property assessments against benefiting property owners for which liens have been attached. In the event of delinquencies in the payment of the property owners' installments, the City, in the absence of any other bidder, is obligated, by deposits from available surplus funds in the applicable Redemption Fund, to purchase at delinquent reassessment sales and pay future delinquent installments of reassessments and interest thereon until the land is resold or the applicable bonds are redeemed.

The annual requirements to amortize such long-term debt outstanding as of June 30, 1993, including interest payments to maturity, are as follows (in thousands):

<u>Year Ending June 30.</u>	<u>General Obligation Bonds</u>	<u>Special Assessment Bonds</u>	<u>Tax Allocation Bonds</u>	<u>Contracts Payable</u>	<u>Notes Payable</u>	<u>Capital Lease Obligations</u>
1994	\$ 23,499	\$ 12,811	\$ 5,395	\$ 3,368	\$ 1,087	\$ 13
1995	22,858	12,879	5,391	2,518	1,089	13
1996	22,884	12,895	5,385	368	5,817	11
1997	23,110	12,849	5,385	368	3,655	0
1998	22,477	12,836	5,377	326	658	0
1999-2003	114,312	61,185	24,467	1,024	3,337	0
2004-2008	84,019	59,493	23,438	64	3,465	0
Thereafter	<u>26,933</u>	<u>75,690</u>	<u>4,675</u>	<u>64</u>	<u>58,206</u>	<u>0</u>
Subtotal	340,092	260,638	79,513	8,100	77,314	37
Less Amounts representing interest	<u>(133,737)</u>	<u>(131,781)</u>	<u>(28,558)</u>	<u>(1,387)</u>	<u>(4,135)</u>	<u>0</u>
Total	<u>\$ 206,355</u>	<u>\$ 128,857</u>	<u>\$ 50,955</u>	<u>\$ 6,712</u>	<u>\$73,179</u>	<u>\$ 37</u>

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

4. GENERAL LONG-TERM DEBT (CONTINUED)

Series 1992 Tax Allocation Refunding Bonds

The Redevelopment Agency of the City of San Diego issued Tax Allocation Refunding Bonds, Series 1992 dated October 1, 1992 in the amount of \$36,935,000 to advance refund the outstanding \$18,105,000 Series 1987 Marina Redevelopment Project Tax Allocation Refunding Bonds and \$17,045,000 Series 1987 Columbia Redevelopment Project Tax Allocation Refunding Bonds. The proceeds from the advance refunding were deposited into two escrow account to purchase direct obligations of the United States Government or certain other obligations for which the faith and credit of the United States are pledged for the payment of principal and interest of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the general long term debt account group. This advance refunding was undertaken to reduce total debt service payments over the next 17 years by \$11,518,000 and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$3,012,545.

Prior-Years' Defeasance of Debt

In prior years, the City, the Redevelopment Agency of the City of San Diego and the Open Space Park Facilities District No. 1 defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 1993, \$114,645,000 of such defeased bonds are still outstanding.

5. PROPRIETARY FUND TYPE LONG-TERM DEBT

Proprietary Fund Type long-term debt as of June 30, 1993 is comprised of the following (in thousands):

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1993</u>
<u>Sewer Revenue Bonds:</u>				
Sewer Revenue Bonds of 1961, issued June 1961	4.0%	1998	\$ 42,500	\$ 6,117
Sewer Revenue Bonds 1966 Series A, issued May 1968	4.8-5.0	1998	5,000	2,870
Sewer Revenue Bonds 1966 Series B, issued September 1968	5.1	1998	<u>10,000</u>	<u>3,810</u>
Total Sewer Revenue Bonds			<u>\$ 57,500</u>	<u>\$ 12,797</u>

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

5. PROPRIETARY FUND TYPE LONG-TERM DEBT (CONTINUED)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1993</u>
<u>Notes Payable (Cont'd):</u>				
<u>Notes Payable:</u>				
Note payable to insurance company, dated August 1980	10.0	2011	\$ 1,200	\$ 574
Note payable to bank, dated February 1991	5.3	1995	336	177
Note payable to bank, dated April 1992	5.3	1995	393	229
Note payable to bank, dated June 1992	5.3	1995	464	297
Note payable to bank, dated October 1992	4.8	1997	<u>1,700</u>	<u>1,670</u>
Total Notes Payable			<u>\$ 4,093</u>	<u>\$ 2,947</u>
<u>General Obligation Bond:</u>				
Certificates of Participation, dated September 1990	7.3	1996	<u>\$ 9,205</u>	<u>\$ 6,630</u>
<u>Contracts Payable:</u>				
Contracts payable to County of San Diego		1997	100	100
Other contracts payable		1995	<u>41</u>	<u>71</u>
Total Contracts Payable			<u>\$ 141</u>	<u>171</u>
Total Proprietary Fund Type Debt				<u>\$ 22,545</u>

THE CITY OF SAN DIEGO 1993 ANNUAL FINANCIAL REPORT

5. PROPRIETARY FUND TYPE LONG-TERM DEBT (CONTINUED)

The sewer revenue bonds may be redeemed prior to maturity at specified dates and at certain premiums. A sinking fund has been established for the sewer revenue bonds whereby sufficient funds must be set aside to purchase or call and redeem the bonds in minimum annual principal amounts of \$1,300,000 through 1998. The bond ordinances limit additional revenue debt financing, preclude further encumbering of the sewer user charge revenue and prohibits the disposition or lease of the enterprise plant in service, unless certain conditions are met in each instance. The management of the City is of the opinion that all significant bond covenant requirements have been met.

The City Charter provides that the bonded indebtedness for the development, conservation and furnishing of water cannot exceed 15% of the most recent assessed valuation of all real and personal property of the City subject to direct taxation, and 10% for other municipal improvements. At June 30, 1993, the limits for the City were \$2,315,550 and \$1,543,699 respectively.

Annual requirements to amortize such long-term debt as of June 30, 1993, including interest payments to maturity, are as follows (in thousands):

<u>Year Ending June 30.</u>	<u>Sewer Revenue Bonds</u>	<u>Notes Payable</u>	<u>General Obligation Bond</u>	<u>Contracts Payable</u>	<u>Total</u>
1994	\$ 2,979	\$ 885	\$ 2,201	\$ 0	\$ 6,065
1995	2,976	918	2,188	71	6,153
1996	2,978	573	2,184	0	5,735
1997	2,979	250	927	100	4,256
1998	2,595	569	0	0	3,164
1999	0	126	0	0	126
2000	<u>0</u>	<u>54</u>	<u>0</u>	<u>0</u>	<u>54</u>
Subtotal	14,507	3,375	7,500	171	25,553
Less amounts representing interest	<u>(1,710)</u>	<u>(428)</u>	<u>(870)</u>	<u>(0)</u>	<u>(3,008)</u>
Total	<u>\$12,797</u>	<u>\$ 2,947</u>	<u>\$ 6,630</u>	<u>\$ 171</u>	<u>\$22,545</u>

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

6. INTERAGENCY LONG-TERM DEBT

Long-term debt between the City and its component units has been eliminated in this report. During the year, the Redevelopment Agency of the City of San Diego has repaid \$2,797,787 principal and \$2,718,415 interest to the City and the City has advanced \$4,773,692 to the Agency. Interest at 12 percent totaling \$11,447,308 was added to the amount owing for the year. At June 30, 1993, interagency loans (including interest) were as follows (in thousands):

	<u>Loans and Note Receivable</u>	<u>Loans and Note Payable</u>
City of San Diego	\$157,996	\$ 0
Redevelopment Agency of The City of San Diego	<u>0</u>	<u>157,996</u>
Total	<u>\$157,996</u>	<u>\$157,996</u>

7. LEASE COMMITMENTS

Operating Leases

The following is a schedule of future minimum rental payments required under operating leases entered into by the City for property that has initial or remaining non-cancelable lease terms in excess of one year as of June 30, 1993 (in thousands):

Year Ending June 30,

1994	\$ 8,269
1995	7,812
1996	7,197
1997	6,758
1998	6,560
Thereafter	<u>33,011</u>
Total	<u>\$69,607</u>

Rent expense as related to operating leases was approximately \$8,778,000 for the year ended June 30, 1993.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

7. LEASE COMMITMENTS (CONTINUED)

Capital Leases

The City has entered into various capital leases for equipment, vehicles and property. A schedule of future minimum lease payments under capital leases together with the present value of future minimum lease payments as of June 30, 1993 is provided in Note 4.

Lease Revenues

The City has operating leases for certain land, buildings and facilities with tenants and concessionaires who will provide the following minimum annual lease payments (in thousands):

Years Ending June 30,

1994	\$ 19,183
1995	17,115
1996	16,534
1997	16,118
1998	15,831
Thereafter	<u>441,167</u>
Total	<u>\$525,948</u>

This amount does not include contingent rentals which may be received under certain leases of property on the basis of percentage returns. Contingent rentals amounted to approximately \$19,725,000 in the year ended June 30, 1993.

8. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, disability or an unforeseeable emergency.

The City funds all amounts of compensation deferred under the plan through investments in various mutual funds administered by an insurance company. Such investments and all related earnings thereon are (until paid or made available to employee or other beneficiary) solely the property and right of the City (without being restricted to the provisions of benefits under the plan), subject only to the claims of the City's general creditors. Participants under the plan have only the right to receive benefits in an amount equal to the balance of the participant's book account balance.

8. DEFERRED COMPENSATION PLAN (CONTINUED)

The City is of the opinion that it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the plan's assets to satisfy the claims of general creditors in the future.

The City accounts for the plan as an Agency Fund. The assets are stated at the market value which is represented by the contract value provided by the City's third party administrator.

9. PENSION PLANS

The City has a defined benefit plan and various defined contribution pension plans covering substantially all of its employees.

DEFINED BENEFIT PLAN**A. Plan Description**

All of the City and the San Diego Unified Port District (the "District") full-time employees participate in the City Employees' Retirement System ("CERS"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City and the District. For the year ended June 30, 1993, the City's payroll for employees covered by CERS was approximately \$340,700,000 while the City's total payroll was approximately \$353,354,000.

The number of employees and covered membership are as follows:

Retiree and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	3,804
Fully vested active employees	3,171
Nonvested active employees	6,344

All full-time City employees are eligible to participate in CERS. Retirement benefits are determined primarily by the member's age at retirement, the length of membership service and the member's final compensation. Final compensation is the members' compensation earnable based on the highest one-year period. Benefits fully vest on reaching 10 years of service. CERS also provides death and disability benefits. Benefits are established by the City's Municipal Code.

City employees are required to contribute a percentage of their annual salary to CERS. The City is required to contribute the remaining amounts necessary to fund CERS, using the actuarial basis specified by statute.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

9. PENSION PLANS (CONTINUED)

B. Funding Status and Progress

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of CERS on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to CERS.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1992. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8 percent a year compounded annually, (b) projected salary increases of 5.5 percent a year compounded annually (1.3 percent due to merit and 4.2 percent due to inflation), (c) up to a 2 percent per annum cost of living assumption, and (d) the Group Annuity Mortality Table with a 2 year setback for males.

Accumulated benefits and net assets for the City's defined benefit plan as of June 30, 1992, the most recent actuarial valuation date, are as follows (in thousands):

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 446,824
---	------------

Current employees:

Accumulated employee contributions including allocated investment earnings	132,670
Employer-financed vested	388,400
Employer-financed nonvested	<u>89,345</u>

Total pension benefit obligation	1,057,239
----------------------------------	-----------

Net assets available for benefits, at cost	<u>1,077,135</u>
--	------------------

Unfunded pension benefit obligation	<u>\$ (19,896)</u>
-------------------------------------	--------------------

The market value of the net assets was approximately \$1,099,164,881 at June 30, 1992.

9. PENSION PLANS (CONTINUED)**C. Actuarially Determined Contribution Requirements and Contribution Made**

Contributions to CERS from City employees vary according to entry age and salary. The City contributes a portion of the employees' share and the remaining amount necessary to fund the system based on an actuarial valuation at the end of the preceding year under the entry age normal cost method. The entry age normal cost method defines the normal cost as the level percent of payroll needed to fund benefits over the period from the date of participation to the date of retirement. Beginning with the June 30, 1992 valuation, contributions will be based on the projected unit credit method of actuarial valuation. Initial prior service costs are being amortized over a period of 30 years. Additional prior service costs due to plan changes in 1965 are being amortized over 30 years.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described above.

The contribution to CERS for 1993 of \$48,164,000 (14.1 percent of current covered payroll) was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 1991 (the June 30, 1992 valuation was not received by the City until March 1993). The City contributed \$34,150,000 (10.0 percent of covered payroll); employees contributed \$14,014,000 (4.1 percent of covered payroll). All of the employer contributions were applied to normal cost.

D. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten-year trend information may be found on page 19 of the City's Comprehensive Annual Financial Report. For the three fiscal years ended 1990, 1991, and 1992, respectively, available assets were sufficient to fund 95.1, 94.6 and 95.2 percent of the City's pension benefit obligation. Unfunded pension benefit obligation represented 15.2, 16.9, and 15.4 percent of the City's annual payroll for employees covered by CERS for 1990, 1991, and 1992, respectively. Showing unfunded pension benefit obligation as a percentage of annual covered City payroll approximately adjusts for the effects of inflation for analysis purposes. In addition, for the three fiscal years ended 1990, 1991, and 1992, the City's contributions to CERS, all made in accordance with actuarially determined requirements, were 11.0, 12.7, and 8.9 percent respectively of annual covered payroll.

Plan data for the plan year ended June 30, 1993 is not yet available.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

9. PENSION PLANS (CONTINUED)

DEFINED CONTRIBUTION PLANS

- a. Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, the City provides pension benefits for eligible full-time employees through a supplemental pension and savings plan, a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. State legislation requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each month. Participants in the plan hired before April 1, 1986 and on or after April 1, 1986 may voluntarily contribute up to an additional 4.5% and 3.05%, respectively, of total salary. The City also contributes an amount equal to the employee voluntary contributions. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. City contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the City's contribution requirement.

The City's total payroll in fiscal year 1993 was approximately \$353,354,000. The City's contributions were calculated using the salary amount of approximately \$233,441,000. The City and the covered employees each contributed approximately \$13,773,000 (5.9%) or approximately \$27,546,000 in total.

In addition, the City provides pension benefits for all eligible full-time employees through the 401(k) Deferred Compensation Plan, also a defined contribution plan. Employees are eligible to participate twelve months after the date of employment. Employees make contributions to their 401(k) accounts through payroll deductions, and may also elect to have the City contribute to their 401(k) accounts through the City's Employees' Flexible Benefits Program.

The City's total payroll in fiscal year 1993 was approximately \$353,354,000. The City's contributions were calculated pursuant to various combination arrangements with employees. The City and the covered employees contributed approximately \$3,178,000 and approximately \$2,472,000, respectively, or approximately \$5,650,000 in total.

- b. Centre City Development Corporation ("CCDC") has a Money Purchase Pension Plan covering all full-time permanent employees. The plan is a defined contribution plan. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes quarterly an amount equal to 8% of the total quarterly compensation for all employees. CCDC's contributions for each employee are fully vested after six years of continuous service.

9. PENSION PLANS (CONTINUED)

CCDC's total payroll in fiscal year 1993 was approximately \$1,282,000. CCDC contributions were calculated using the base salary amount of approximately \$1,221,000. CCDC made the required 8% contribution, amounting to approximately \$79,000 (net of forfeitures) for fiscal year 1993.

In addition, CCDC has a Tax Deferred Annuity Plan covering current and previous full-time permanent employees. The plan is a defined contribution plan. Employees are eligible to participate the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes semi-monthly an amount equal to 10% of the total semi-monthly compensation for all employees. CCDC's contributions for each employee are fully vested at time of contribution.

CCDC's total payroll in fiscal year 1993 was approximately \$1,282,000. CCDC contributions were calculated using the base salary amount of approximately \$1,221,000. CCDC made the required 10% contribution amounting to approximately \$122,000 for fiscal 1993.

- c. San Diego Convention Center Corporation, Inc. ("SDCCC") provides pension benefits for eligible employees through a Money Purchase Pension Plan. The plan is a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate at the earlier of the date on which they complete six months of continuous full-time service, or the twelve-month period beginning on the hire date (or any subsequent plan year) during which they complete 1,000 hours of service. For each plan year, which is defined as a calendar year, SDCCC contributes an amount equal to 10% of the total covered compensation of all eligible employees. SDCCC contributions for each employee are vested gradually over five years of continuing service with an eligible employee becoming fully vested after five years. The unvested portion of a terminated employee's account becomes available after a specified waiting period to reduce SDCCC's required contributions.

Total payroll for the plan year ended December 31, 1992 was approximately \$6,210,000. Required contributions were calculated using the covered compensation amount of approximately \$4,784,000. SDCCC has funded the required contribution as of June 30, 1993.

For the fiscal year ended June 30, 1993, pension expense amounted to \$420,000. SDCCC records pension expense during the fiscal year based upon estimated covered compensation. A final determination of covered compensation and SDCCC's required contribution for the plan year is made as of December 31. Included in accrued liabilities at June 30, 1993 is approximately \$224,000 for accrued pension expense.

9. PENSION PLANS (CONTINUED)

- d. San Diego Data Processing Corporation ("SDDPC") has agreed to accrue up to \$25,000 per year for a maximum of thirty years to provide employees who transferred from the City to SDDPC with retirement benefits approximately equal to those under the City's retirement plan. In accordance with this provision, \$25,000 was charged to operations during the year ended June 30, 1993. SDDPC had previously invested these funds in a group annuity contract separate from the one covering the pension plan described below. During fiscal year 1991, the annuity contract matured and SDDPC transferred the funds to a money market account held in the Corporation's name separate from the pension plan described below. SDDPC has hired an outside consulting firm to determine if the plan is properly funded for the applicable employees. As of June 30, 1993, the outside consulting firm had completed its formal evaluation determining that the proper funded amount should be \$75,000. Per advice of legal counsel and the Board of Directors, SDDPC reserved an additional \$50,000 related to an annuity purchased on behalf of a retiree from a company that is currently in bankruptcy. Therefore, the total estimated liability is \$125,000 as of June 30, 1993. As of June 30, 1993, the balance in the money market account was \$155,000. As the new required estimate of the liability was significantly less than the funds available during fiscal year 1993, SDDPC returned \$200,000 to the City. This refund payment represented a return of budgetary savings from prior years required by the contract executed by the City and SDDPC in 1979. The balance at June 30, 1993 consists of the total estimated liability of \$125,000 plus interest earned on the money market account since its establishment during fiscal year 1991.

SDDPC has a Money Purchase Pension Plan covering substantially all employees. The plan is a defined contribution plan. Employees are eligible to participate from the date of employment. During each plan year, SDDPC contributes monthly an amount equal to 20% of the total monthly compensation for all employees. SDDPC's contributions for each employee are fully vested after four years of continuous service.

SDDPC's total payroll in fiscal year 1993 was approximately \$9,537,000. As all employees are substantially covered, SDDPC contributions were calculated using this base salary amount. SDDPC made the required 20% contribution amounting to approximately \$1,890,000 for fiscal year 1993.

- e. The Housing Authority ("Housing") provides pension benefits for all of its full-time employees through a defined contribution plan. Employees are eligible to participate on the first day of their employment. Housing contributes an amount equal to 12% of the employee's base salary semi-monthly. Housing's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. Housing contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the Housing's contribution requirement.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

9. PENSION PLANS (CONTINUED)

Housing's total payroll in fiscal year 1993 was approximately \$7,729,000. Housing made the required 12% contribution, amounting to approximately \$927,000 for fiscal year 1993.

- f. Southeast Economic Development Corporation ("SEDC") has a Simplified Employee Pension Plan covering all full-time, permanent employees. The plan is a defined contribution plan. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, SEDC contributes monthly an amount equal to 12% of the employee's base salary. Such contributions are fully vested.

SEDC's total payroll in fiscal year 1993 was approximately \$668,000. SEDC contributions were calculated using the base salary amount of approximately \$605,000. SEDC made the required 12% contribution, amounting to approximately \$73,000 for fiscal year 1993.

- g. Mid-City Development Corporation, Inc. ("MCDC") is currently awaiting approval of their pension plan. Acceptance is expected and a liability of \$2,000 has been accrued at June 30, 1993.

10. POST RETIREMENT HEALTH INSURANCE

In addition to providing pension benefits, the City of San Diego Municipal Code provides certain healthcare insurance benefits for retired general and safety members of CERS who retired on or after October 6, 1980. At June 30, 1993, approximately 2,589 retirees were eligible and received benefits. Currently, expenses for postemployment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 1993, expenditures of approximately \$3,525,997 were recognized for such healthcare benefits.

Substantially all of the City's general and safety members of CERS may become eligible for those benefits if they reach normal retirement age and meet service requirements as defined while working for the City.

11. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Individual fund interfund working capital advances balances at June 30, 1993 are as follows (in thousands):

<u>Fund</u>	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund	\$ 21.869	\$ 0

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

11. INTERFUND RECEIVABLE AND PAYABLE BALANCES (CONTINUED)

<u>Fund</u>	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
Special Revenue Funds:		
City of San Diego Oversight Unit:		
Acquisition, Improvement and Operation	\$ 107	\$ 490
Environmental Growth Fund-		
One-Third Requirement	526	0
San Diego Jack Murphy		
Stadium Operations	6	0
Special Gas Tax Street Improvement	307	0
Transient Occupancy Tax	256	0
Grants	79	0
Other Special Revenue	8	0
Centre City Development Corporation	0	275
Mid-City Development Corporation	0	59
San Diego Convention Center Corporation	0	256
San Ysidro Revitalization Project	0	21
Southeast Economic Development Corporation	<u>0</u>	<u>148</u>
Total Special Revenue Funds	<u>1,289</u>	<u>1,249</u>
Debt Service Funds:		
City of San Diego Oversight Unit:		
Other General Obligation Bonds	<u>0</u>	<u>7</u>
Capital Projects Funds:		
Redevelopment Agency	<u>482</u>	<u>58</u>
Enterprise Funds:		
City of San Diego Oversight Unit:		
Airports	158	0
Building Inspection	35	0
Golf Course	100	0
Sewerage Utility	6,578	0
Waste Disposal	2,709	0
Water Utility	<u>9,257</u>	<u>0</u>
Total Enterprise Funds	<u>18,837</u>	<u>0</u>

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

11. INTERFUND RECEIVABLE AND PAYABLE BALANCES (CONTINUED)

<u>Fund</u>	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
Internal Service Funds:		
City of San Diego Oversight Unit:		
Central Garage and Machine Shop	\$ 22	\$ 36,173
Print Shop Revolving	32	0
Self Insurance	190	1,200
Stores Revolving	5	3,282
Miscellaneous Internal Service	<u>16</u>	<u>0</u>
Total Internal Service Funds	<u>265</u>	<u>40,655</u>
Trust and Agency Funds:		
City of San Diego Oversight Unit:		
Other Miscellaneous Agency	<u>7</u>	<u>780</u>
Total	<u>\$ 42,749</u>	<u>\$ 42,749</u>

Individual fund interfund receivable and payable balances at June 30, 1993 are as follows (in thousands):

<u>Funds</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	<u>\$ 35,534</u>	<u>\$ 0</u>
Special Revenue Funds:		
City of San Diego Oversight Unit:		
Transient Occupancy Tax	0	472
Other Special Revenue	0	34
San Diego Convention Center Corporation	<u>472</u>	<u>0</u>
Total Special Revenue Funds	<u>472</u>	<u>506</u>
Enterprise Funds:		
City of San Diego Oversight Unit:		
Sewerage Utility	0	1,500
Water Utility	<u>1,500</u>	<u>0</u>
Total Enterprise Funds	<u>1,500</u>	<u>1,500</u>
Trust and Agency Funds:		
City of San Diego Oversight Unit:		
Other Miscellaneous Agency	<u>0</u>	<u>35,500</u>
Total	<u>\$ 37,506</u>	<u>\$ 37,506</u>

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

12. ENTERPRISE FUNDS SEGMENT INFORMATION

The City maintains Enterprise Funds which provide airport, sewer, water and other services. Segment information for the year ended June 30, 1993 is as follows (in thousands):

	<u>Airports</u>	<u>Building Inspection</u>	<u>City Store</u>	<u>Golf Course</u>	<u>Sewerage Utility</u>	<u>Subtotal</u>
Operating Revenues	\$1,971	\$13,137	\$ 400	\$4,418	\$145,755	\$165,681
Operating Expenses before Depreciation and Amortization	2,287	12,730	439	3,392	83,626	102,474
Depreciation and Amortization	184	33	0	95	8,692	9,004
Operating Income (Loss)	(500)	374	(39)	931	53,437	54,203
Operating Transfers In	0	0	0	0	0	0
Operating Transfers Out	0	0	0	0	(500)	(500)
Transfers In from Governmental Funds	0	0	40	0	0	40
Nonoperating Revenue	532	295	5	316	21,772	22,920
Nonoperating Expense	(23)	(194)	0	(20)	(4,586)	(4,823)
Net Income (Loss)	9	475	6	1,227	70,123	71,840
Grant Revenues (Expenses)	400	0	0	19	(88)	331
Capital Contributions	303	0	40	49	50,508	50,900
Net Fixed Asset Additions (Deletions)	1	(218)	0	460	142,860	143,103
Net Working Capital	2,434	5,236	150	4,720	207,031	219,571
Total Assets	8,281	8,746	167	10,446	1,084,069	1,111,709
Total Equity	7,868	5,002	150	9,608	1,002,388	1,025,016
Long-Term Liabilities:						
Bonds Payable	0	0	0	0	10,387	10,387
Other	0	0	0	0	100	100

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

12. ENTERPRISE FUNDS SEGMENT INFORMATION (CONTINUED)

	<u>Subtotal</u> <u>(Previous Page)</u>	<u>Waste</u> <u>Disposal</u>	<u>Water</u> <u>Utility</u>	<u>San Diego Data</u> <u>Processing</u> <u>Corporation</u>	<u>Grand</u> <u>Total</u>
Operating Revenues	\$ 165,681	\$ 38,384	\$ 119,319	\$ 28,914	\$ 352,298
Operating Expenses before Depreciation and Amortization	102,474	29,317	112,025	22,474	266,290
Depreciation and Amortization	9,004	84	7,732	5,681	22,501
Operating Income (Loss)	54,203	8,983	(438)	759	63,507
Operating Transfers In	0	0	500	0	500
Operating Transfers Out	(500)	0	0	0	(500)
Transfers In from Governmental Funds	40	0	0	0	40
Nonoperating Revenue	22,920	2,464	9,583	163	35,130
Nonoperating Expense	(4,823)	(1)	(813)	(633)	(6,270)
Net Income (Loss)	71,840	11,446	8,832	289	92,407
Grant Revenues (Expenses)	331	243	810	0	1,384
Capital Contributions	50,900	0	40,570	0	91,470
Net Fixed Asset Additions (Deletions)	143,103	6,384	40,605	(1,174)	188,918
Net Working Capital	219,571	26,972	183,972	2,531	433,046
Total Assets	1,111,709	54,413	680,239	23,922	1,870,283
Total Equity	1,025,016	48,969	645,842	11,378	1,731,205
Long-Term Liabilities:					
Bonds Payable	10,387	0	0	0	10,387
Other	100	0	0	7,371	7,471

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

13. CONTRIBUTED CAPITAL

During the year ended June 30, 1993, contributed capital increased (decreased) by the following amounts (in thousands):

Enterprise Funds:

<u>Source</u>	<u>Airports</u>	<u>Building Inspection</u>	<u>City Store</u>	<u>Golf Course</u>	<u>Sewerage Utility</u>	<u>Waste Disposal</u>	<u>Water Utility</u>
Capacity charges	\$ 0	\$ 0	\$ 0	\$ 0	\$ 10,920	\$ 0	\$ 8,307
Developer - capital improvements	0	0	0	21	19,405	0	27,583
Federal grant - capital improvements	303	0	0	0	18,645	0	3,133
Federal grant - capital reimbursement	(123)	0	0	0	0	0	0
Government - general fixed assets	0	0	0	28	0	0	0
Government - capital infusion	0	0	40	0	0	0	0
Government - capital reimbursement	0	0	(10)	(500)	0	0	0
Meters and services	0	0	0	0	1,538	0	472
State grant - capital improvements	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,995)</u>	<u>0</u>	<u>1,075</u>
Total additions (deletions)	180	0	30	(451)	46,513	0	40,570
Contributed capital, July 1, 1992	<u>6,205</u>	<u>125</u>	<u>100</u>	<u>7,201</u>	<u>506,168</u>	<u>276</u>	<u>375,076</u>
Contributed capital, June 30, 1993	<u>\$6,385</u>	<u>\$ 125</u>	<u>\$ 130</u>	<u>\$6,750</u>	<u>\$552,681</u>	<u>\$ 276</u>	<u>\$415,646</u>

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

13. CONTRIBUTED CAPITAL (CONTINUED)

Internal Service Fund:

	Central Garage and <u>Machine Shop</u>
Contributed-capital, July 1, 1992	\$ 226
Contributed capital, June 30, 1993	<u>\$ 226</u>

14. NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

During the year, the Golf Course Enterprise Fund increased contributed capital by \$28,000 to account for fixed asset transfers.

15. FUND DEFICIT

The Internal Service Funds have a net fund deficit of approximately \$4,224,000 at June 30, 1993. This balance includes a fund equity deficit in the Self Insurance Fund of approximately \$21,968,000 which represents unfunded estimated claims and claim settlements. It is anticipated that individual claim settlements will be funded through user charges subsequent to the filing of a claim and prior to its settlement.

The Special Revenue funds have a net fund equity of approximately \$127,639,000 at June 30, 1993. This balance includes a fund equity deficit in the SEDC fund of approximately \$4,000 which represents unreimbursed funds from the City. It is anticipated that SEDC will be reimbursed by the City in fiscal year 1994.

16. COMMITMENTS

The City is currently obligated to transfer up to two-thirds of the annual franchise tax receipts in the Environmental Growth Fund (a Special Revenue Fund) to the San Diego Open Space Park Facilities District #1 (the "District") Fund (a Debt Service Fund) for the payment of debt service on the District's outstanding general obligation bonds. Such required debt service on the District's outstanding bond obligations of \$66,885,000 at June 30, 1993 is approximately \$6,712,000 for each of the subsequent five years ending June 30, 1998.

The City currently has guaranteed the payment of a revolving line of credit in the maximum amount of \$7,500,000 on behalf of various individuals through Wells Fargo Bank regarding the CDBG Housing Loan Leveraging Program.

The City (Sewer Utility Fund) has stipulated to upgrading its sewer treatment facilities in settlement of a portion of a suit filed by the United States and the State of California against the City. The costs could range from chemical treatment of sewage to construction of new treatment facilities which could be in excess of \$2 billion borne by utility users fees.

17. CONTINGENCIES

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would not have a material effect on the City's financial position.

The City is self-insured for workers' compensation, long-term disability and employee group health coverages. These are accounted for in the Internal Service Funds. At June 30, 1993, the City has recorded approximately \$27,530,000 for claims and potential claims related to such coverages. Each participating fund contributes an amount equal to an actuarially determined rate times the gross salaries of the fund. These payments are treated as operating expenditures in the contributing funds and operating revenues in the receiving funds.

The City maintains an excess liability insurance policy whereby the City pays the first \$3,000,000 per occurrence. Amounts in excess of \$3,000,000 up to \$22,000,000 per occurrence are covered by insurance. Any amounts over \$22,000,000 per occurrence would be paid by the City. At June 30, 1993, the City has recorded approximately \$21,500,000 for the City's exposure in such claims in the General Long-Term Debt Account Group and approximately \$1,004,000 in the Enterprise Funds. These amounts represent the City's determination of the probable ultimate cost of the claims. The City has set up a reserve for liability claims of approximately \$2,754,000 in the Internal Service Funds to indicate funds set aside to pay for claims in excess of the annual appropriations in the General Fund. Property insurance is maintained on selected capital assets based upon various factors including management's assessment of the risks of loss.

17. CONTINGENCIES (CONTINUED)

In September 1989, legislation was adopted (Assembly Bill No. 2080) which requires the Redevelopment Agency of the City of San Diego to fund Low and Moderate Housing Activity equivalent to at least 20% of tax increment revenue received after fiscal year 1985. In October 1990, the Agency adopted a nine-year plan to fully fund the retroactive 20% requirement (Resolution No.'s 1911, 1912, and 1913). At June 30, 1993, the 20% requirement deficit remaining to be funded in future years is approximately \$3,834,000.

18. THIRD PARTY DEBT

The City has authorized the issuance of certain bonds, in its name, to provide tax exempt status because it perceives a substantial public benefit will be achieved through the use of the proceeds. The following describes the various types of such third party debt:

Mortgage and Revenue Bonds

Single Family Mortgage Revenue Bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single-family residences. The purpose of this program is to provide low interest rate home mortgage loans to persons of low or moderate income who are unable to qualify for conventional mortgages at market rates. Multi-Family Housing Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the City to be partially occupied by persons of low or moderate income.

Industrial Development Revenue Bonds

Industrial Development Revenue Bonds have been issued to provide financial assistance for the acquisition, construction, and installation of facilities for industrial, commercial or business purposes to mutually benefit the citizens of the City of San Diego.

1911 Act Special Assessment Bonds

1911 Act Special Assessment Bonds have been issued to provide funds for the construction or acquisition of public improvements, and/or the acquisition of property for public purposes, for the benefit of particular property holders within the City. Each bond is secured by a lien on a specific piece of property.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

18. THIRD PARTY DEBT (CONTINUED)

As of June 30, 1993, the status of all third party bonds issued is as follows (in thousands):

	<u>Issued</u>	<u>Outstanding</u>
Mortgage Revenue	\$ 599,075	\$ 417,887
Industrial Development Revenue	590,700	587,150
1911 Act Special Assessment	<u>434</u>	<u>434</u>
Totals	<u>\$1,190,209</u>	<u>\$1,005,471</u>

These bonds do not constitute an indebtedness of the City. The bonds are payable solely from payments made on and secured by a pledge of the acquired mortgage loans, certain funds and other monies held for the benefit of the bondholders pursuant to the bond indentures, property liens and other loans. In the opinion of the City officials, these bonds are not payable from any revenues or assets of the City, and neither the full faith and credit for the taxing authority of the City, the state or any political subdivision thereof is obligated to the payment of principal or interest on the bonds. In essence the City is acting as an agent for the property owners/bondholders in collecting and forwarding the funds. Accordingly, no liability has been recorded in the City's General Long-Term Debt Account Group.

19. OPERATING AGREEMENTS

City of San Diego and San Diego Data Processing Corporation

In September 1979, SDDPC entered into an operating agreement with the City. Under the terms of the agreement, as amended, SDDPC has agreed to provide data processing and services needed to support the operational and planning requirements of the City. The rates charged for the various services are subject to adjustment each fiscal year. Included in data processing services and equipment sales revenue for the year ended June 30, 1993 is approximately \$13,315,000 for revenue earned from the City under this agreement.

During fiscal year 1988, the operating agreement was amended to have SDDPC provide and operate telecommunications services to the City. The rates charged for the various services are subject to adjustment each fiscal year.

19. OPERATING AGREEMENTS (CONTINUED)

The operating agreement requires SDDPC to purchase computer equipment, computer maintenance, various contractual services and other reimbursed expenses as a part of the service it provides to the City. The City then reimburses SDDPC the costs associated with these expenses. Such transactions are not considered to be revenues and expenses of SDDPC and are excluded from its statements of revenues, expenses and members' equity. The amount of these expenditures for the year ended June 30, 1993 was approximately \$9,729,000. During fiscal year 1993, the operating agreement was amended to include a 6.5% general and administrative fee for such transactions. However, some of the purchases which were in conjunction with projects commencing prior to fiscal year 1993 were not subject to the 6.5% fee. SDDPC earned \$501,000 from such fee for the year ended June 30, 1993.

In addition, the City has undertaken certain expenses in connection with the organization, staffing and commencement of operations of SDDPC and providing SDDPC with certain facilities, equipment and custodial and maintenance services. Pursuant to the operating agreement with the City, SDDPC has agreed to pay "facilities rental" annually out of budgetary savings.

SDDPC is required to return annually any remaining "budgetary savings", as defined, pro-rata to each entity with which it has contracted in proportion to their respective billings. In fiscal year 1993, budgetary savings were \$0.

Library System

During fiscal year 1984, SDDPC entered into an agreement with the City of San Diego Public Library and the County of San Diego Public Library (the "Libraries") for a five-year term, subject to annual appropriations, to purchase and operate an automated library system and to provide the related data processing services to support the operational requirements of the Libraries. In fiscal year 1990, this agreement was extended an additional 5 years. The Libraries share the cost of operations based upon certain percentages of direct costs plus shared costs. The rates charged for the various services are subject to adjustment each fiscal year.

Included in data processing services and equipment sales revenue are the following amounts for the automated library system for the year ended June 30, 1993 (in thousands):

City of San Diego Public Library	\$ 664
County of San Diego Public Library	<u>427</u>
Total	<u>\$1,091</u>

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

19. OPERATING AGREEMENTS (CONTINUED)

Regional Urban Information System

During fiscal year 1984, SDDPC entered into an agreement with the City and the County of San Diego (the "County") for a ten-year term, subject to annual appropriations, to provide data processing services to implement and operate a data base system known as the Regional Urban Information System ("RUIS"). The long-range goal of RUIS is to provide the City and County with an information system that monitors, where feasible, all operations (current and future) that affect their jurisdictions.

The City and County share the costs of RUIS. The rates charged for the various services are subject to adjustment each fiscal year.

Included in data processing services and equipment sales revenue are the following amounts for RUIS for the year ended June 30, 1993 (in thousands):

City	\$2,920
County	<u>1,157</u>
Total	<u>\$4,077</u>

Automated Regional Justice Information System

During fiscal year 1985, SDDPC renewed, through June 1994, its agreement with a joint powers agency known as the Automated Regional Justice Information System ("ARJIS"). ARJIS was created to assist member agencies by providing and continuing the operation, maintenance, enhancement, and implementation of those telecommunications features initiated under a State Office of Criminal Justice grant agreement and to pursue development of other computerized systems to meet law enforcement needs and requirements in the region. Under the agreement, SDDPC is to provide data processing services to ARJIS at rates which, on an annual basis, are equivalent to those charged to other governmental entity clients.

Included in data processing services and equipment sales revenue are the following amounts for ARJIS for the year ended June 30, 1993 (in thousands):

City of San Diego Police Department	\$1,492
Other law enforcement agencies	<u>1,622</u>
Total	<u>\$3,114</u>

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

20. SUBSEQUENT EVENTS

- a. On July 1, 1993, the City issued \$100,500,000 of 1993-1994 Tax Anticipation Notes, Series A, to finance seasonal short term cash flow requirements.
- b. On August 18, 1993, the City received a \$10,000,000 advance from the San Diego Association of Governments ("SANDAG") for certain construction projects. Repayment will occur between the years of 2005 and 2008.
- c. On September 1, 1993, the City of San Diego Metropolitan Transit Development Board Authority issued \$19,515,000 of Lease Revenue Bonds, Series 1993, to finance the City's portion of the acquisition, construction and equipping of an extension for the San Diego Light Rail Transit System to the Old Town District of the City.
- d. On September 30, 1993, the Public Facilities Financing Authority of the City of San Diego issued \$250,000,000 of Sewer Revenue Bonds, Series 1993, to finance the City's design, engineering, land acquisition and construction costs of certain capital improvements to the waste water system of the City.
- e. On November 1, 1993, the San Diego Facilities & Equipment Leasing Corporation issued \$27,985,000 of Certificates of Participation, Series 1993, to finance a portion of the first phase of projects under the Balboa Park and Mission Bay Park Capital Improvements Program.
- f. The Redevelopment Agency of the City of San Diego is in the process of issuing \$27,075,000 and \$27,275,000 of Tax Allocation Bonds, Series 1993A and 1993B, respectively, for the acquisition of land, construction improvements and other redevelopment activities in the Center City Redevelopment Project area of the City of San Diego.
- g. At the direction of the City Council and City Manager, the San Diego Convention Center Corporation ("SDCCC") began taking operational control of the San Diego Concourse Convention & Performing Arts Center ("the Concourse") effective August 1, 1993. SDCCC and City staff are in the process of negotiating a management agreement for the Concourse, which will be approved by the City Council.

THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

TRUST AND AGENCY FUNDS
PENSION TRUST FUNDS
CITY EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION - ANALYSIS OF FUNDING PROGRESS
LAST TEN FISCAL YEARS
(IN MILLIONS)

<u>Fiscal Year Ended June 30</u>	<u>Net Assets Available For Benefits</u>	<u>Pension Benefit Obligation</u>	<u>Percentage Funded</u>	<u>Unfunded Pension Benefit Obligation</u>	<u>Annual Covered Payroll</u>	<u>Benefit Obligation As a Percentage Of Covered Payroll</u>
1984	\$ 378.2	\$ 462.3	81.8%	\$ 84.1	\$ 144.7	58.1%
1985	429.7	496.5	86.6	66.8	153.7	43.5
1986	493.3	547.6	90.1	54.3	171.7	31.6
1987	590.7	616.9	95.8	26.2	195.4	13.4
1988	659.0	688.1	95.8	29.1	218.1	13.3
1989	746.0	786.5	94.8	40.5	241.4	16.8
1990	806.5	847.8	95.1	41.3	271.4	15.2
1991	896.4	947.6	94.6	51.2	303.5	16.9
1992	1,006.1	1,057.2	95.2	51.1	331.7	15.4
1993	N/A	N/A	N/A	N/A	N/A	N/A

REQUIRED SUPPLEMENTARY INFORMATION - REVENUE SOURCES
LAST TEN FISCAL YEARS
(IN THOUSANDS)

<u>Fiscal Year Ended June 30</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>	<u>Investment Income</u>	<u>Charges For Current Services</u>	<u>Total</u>	<u>Employer Contributions As a Percentage Of Covered Payroll</u>
1984	\$ 5,950	\$ 27,633	\$ 29,993	\$ 35	\$ 63,611	19.5%
1985	5,561	27,064	48,543	31	81,199	18.7
1986	4,917	30,051	64,922	46	99,936	19.6
1987	4,959	31,763	92,330	47	129,099	18.5
1988	5,781	31,545	65,665	43	103,034	16.1
1989	7,262	29,291	87,676	47	124,276	13.4
1990	10,760	30,230	63,652	71	104,713	12.5
1991	11,442	36,899	86,833	67	135,241	13.5
1992	13,855	29,579	107,825	76	151,335	10.9
1993	14,014	34,150	102,374	105	150,643	10.9

REQUIRED SUPPLEMENTARY INFORMATION - EXPENSES BY TYPE
LAST TEN FISCAL YEARS
(IN THOUSANDS)

<u>Fiscal Year Ended June 30</u>	<u>Benefits</u>	<u>Administrative Expenses</u>	<u>Refunds</u>	<u>Total</u>
1984	\$ 22,687	\$ 736	\$ 1,631	\$ 25,054
1985	24,815	1,071	1,138	27,024
1986 *	36,365	1,113	1,186	38,957
1987	29,370	1,297	997	31,664
1988	31,323	1,443	979	33,745
1989	34,093	1,951	943	36,987
1990	38,025	3,116	1,097	42,238
1991	41,685	3,789	1,094	46,568
1992	42,315	4,931	1,021	48,267
1993	48,873	5,439	1,193	55,505

* Includes additional Supplemental Benefit from Andrews class settlement of \$9,944,524.

APPENDIX D

FORM OF FINAL OPINION OF CO-BOND COUNSEL

THIS DOCUMENT IS UNCLASSIFIED

APPENDIX D

Form of Final Opinion of Co-Bond Counsel

[Date of Delivery]

City of San Diego/MTDB Authority
202 C Street
San Diego, California 92101

City of San Diego/MTDB Authority
Lease Revenue Bonds (1994 Refundings)
(Final Opinion)

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance and delivery of \$66,570,000 aggregate principal amount of City of San Diego/MTDB Authority Lease Revenue Bonds (1994 Refundings) (the "Bonds"). In such connection, we have reviewed an Indenture, dated as of April 1, 1994 (the "Indenture"), between the City of San Diego/MTDB Authority (the "Authority") and First Interstate Bank of California, as trustee (the "Trustee"), a Lease Agreement, dated as of May 1, 1986 (the "Original 1986 Lease"), by and between the City of San Diego (the "City") and Rauscher Pierce Refsnes Leasing, Inc. ("Rauscher"), a First Amendment to Lease Agreement, dated as of April 1, 1994, by and between the Authority, as successor in interest to Rauscher, and the City, amending the Original 1986 Lease (the Original 1986 Lease as so amended is hereinafter referred to as the "Amended 1986 Lease"), a Lease Agreement, dated as of June 1, 1989 (the "Original 1989 Lease"), by and between the City and the Authority, a First Amendment to Lease Agreement, dated as of April 1, 1994, by and between the Authority and the City, amending the Original 1989 Lease (the Original 1989 Lease as so amended is hereinafter referred to as the "Amended 1989 Lease"), a Trust Agreement, dated as of May 1, 1986 (the "Original 1986 Trust Agreement"), by and among Bank of America National Trust and Savings Association ("Bank of America"), Rauscher and the City, a First Supplemental Trust Agreement, dated as of April 1, 1994, by and among First Interstate Bank of California, as successor trustee to Bank of America, the Authority, as successor in interest to Rauscher, and the City, amending the Original 1986 Trust Agreement (the Original 1986 Trust Agreement as so amended is hereinafter referred to as the "Amended 1986 Trust Agreement"), a Trust Agreement, dated as of June 1, 1989 (the "Original 1989 Trust Agreement"), by and between the Authority and Bankers Trust Company, a First Supplemental Trust Agreement, dated as of April 1, 1994, by and between the Authority and First Interstate Bank of California, as successor trustee to Bankers

Trust Company, amending the Original 1989 Trust Agreement (the Original 1989 Trust Agreement as so amended is hereinafter referred to as the "Amended 1989 Trust Agreement"), an Assignment Agreement of Lease and of Site Leases, dated as of May 1, 1986 (the "Original 1986 Assignment Agreement"), by and between Bank of America and Rauscher, a First Amendment to Assignment Agreement of Lease and of Site Leases, dated as of April 1, 1994, among the Authority, First Interstate Bank of California, as trustee for the 1986 Certificates, and First Interstate Bank of California, as Trustee for the Bonds, amending the 1986 Assignment Agreement (the Original 1986 Assignment Agreement as so amended is hereinafter referred to as the "Amended 1986 Assignment Agreement"), among the Authority, First Interstate Bank of California, as successor trustee for the 1986 Certificates, and First Interstate Bank of California, as Trustee for the Bonds, a tax certificate and agreement of the Authority and the City, dated as of the date hereof (the "Tax Certificate"), and other legal documents pertaining thereto, opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Amended 1986 Lease, the Amended 1989 Lease, the Amended 1986 Trust Agreement, the Amended 1989 Trust Agreement, the Amended 1986 Assignment Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond if such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur. Our engagement with respect to the Bonds has concluded with their issuance and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority and the City. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions

contained in the opinions, referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Amended 1986 Lease, the Amended 1989 Lease, the Amended 1986 Trust Agreement, the Amended 1989 Trust Agreement, the Amended 1986 Assignment Agreement, the Tax Certificate and any other documents including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Amended 1986 Lease, the Amended 1989 Lease, the Amended 1986 Trust Agreement, the Amended 1989 Trust Agreement, the Amended 1986 Assignment Agreement, the Tax Certificate and other documents are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against cities in the State of California. We express no opinion with respect to any indemnification, waiver or non-substitution provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to any of the real or personal property described in or subject to the lien of the Amended 1986 Lease, the Amended 1989 Lease or the Amended 1986 Assignment Agreement, or the accuracy or sufficiency of the description of any such property contained therein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Authority is a joint powers agency created by the City of San Diego and the Metropolitan Transit Development Board pursuant to California Government Code Sections 6500 et seq.
2. The Indenture has been duly executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Trustee, constitutes the valid and binding obligation of the Authority.
3. The Amended 1986 Lease, the Amended 1989 Lease, the Amended 1986 Trust Agreement, the Amended 1989 Trust Agreement and the Amended 1986 Assignment Agreement have been duly executed and delivered by the Authority and, assuming due authorization, execution and delivery by the respective parties

thereto, constitute the valid and binding obligation of the Authority.

4. The Amended 1986 Lease, the Amended 1989 Lease and the Amended 1986 Trust Agreement have been duly executed and delivered by the City and, assuming due authorization, execution and delivery by the respective parties thereto, constitute the valid and binding obligation of the City.

5. The obligation of the City to make the Base Rental Payments during the term of the Amended 1986 Lease and the Amended 1989 Lease constitutes a valid and binding obligation of the City, payable from funds of the City lawfully available therefor, and does not constitute a debt of the City or of the State of California within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation.

6. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In addition, the difference, if any, between the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of any maturity of the Bonds is sold and the principal amount payable at the maturity thereof constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. Original issue discount is treated as interest excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof. The interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the accrual or receipt of such interest or the ownership or disposition of the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE

Very truly yours,

WILLIAMS & GILMORE

per